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Airlines draw in formation for landing fee dogfight

by Allan Parker

AIRLINES operating in and out of New Zealand airports are preparing for a dogfight with the Government over a proposal to increase their landing fees by nearly 100 per cent.

The plan, put forward by the Ministry of Transport, incorporates the user-pays principle. It would make New Zealand airports among the most expensive in the world to land on.

It would almost certainly mean a further hike in international airfares and freight costs.

Airline representatives from IATA — the International Air Transport Association — and local industry officials were told of the plan three weeks ago.

They *immediately lodged* strong objections and demanded a review of the system by which landing fees are calculated.

A major concern is that the international operators may be found to be subsidising domestic carriers such as Air New Zealand's internal operation and Mt Cook Airlines.

A task force of industry and departmental officials will come together in Wellington today to discuss the proposal in greater depth before a full meeting of the IATA User Charges Committee with the Government officials again on November 6.

The airlines have marshalled a team of technical and financial experts in New Zealand, Australia, Bangkok and Tokyo to prepare data aimed at countering the Government plan.

NBR has been unable to confirm a report from one industry source that the United States Government has been brought into the action on behalf of the airlines by indicating that the increase would be discriminatory.

A departmental official, closely involved with the negotiations, was not aware of such a move and argued that all airlines, not just American carriers, would be affected by the increase.

Both the airlines and the department are reluctant to discuss the financial implications of the proposal suggested by Government. But from a variety of sources, *NBR* has been able to piece together the basic plan — and the proposed increase.

Essentially, Government is asking for an 87 per cent increase in the landing fees.

Based on 1979 figures, this would mean an annual increase of $3,750,000 in total fees collected from the airlines — up from the 1979 fees of just under

Continued on Page 5.

NZLL looks to more restructuring

by Rae Mazengarb

FURTHER restructuring of South Canterbury tanner New Zealand Light Leathers Ltd will be discussed by a specially called meeting of the board today.

The talks follow closely on last month's announcement of a major scaling down of the company's operations which apparently cost 38 workers their jobs.

The restructuring plans have sparked speculation in some commercial circles of an outside buyer showing an interest in the company.

Board chairman Jack Hazlett could not be contacted by *NBR* for comment last week. But deputy chairman J A G Fulton confirmed that the board would meet today to discuss "restructuring".

Asked to comment on suggestions that the company was facing financial problems, Fulton said he was in no position to either confirm or deny these.

He said the company had not been approached about a possible takeover, and could not comment on talk of a prospective buyer showing interest in the company.

Comments had to come from the chairman, he said. He declined to elaborate.

But some of NZLL'S problems have been evident for some time.

In his 1977 report, despite a net profit for the year of more than $500,000, the then chairman, L C Ryan, sounded warnings of the volatility of new raw material costs and the markets served by the company.

The following months saw the company grappling with problems posed by the revised export incentive scheme, increased pelt and chemical prices, higher interest rates and increased labour costs.

Last year — after an announcement to the Stock Exchange of an audited loss of $616,193 for the extended financial year of 15 months to December 31 1978 — new chairman Hazlett commented to shareholders on the situation before the annual general meeting.

A pre-tax loss of $1,196,657 reflected changes to the company's operations during the preceeding year.

New appointments were made at both management and board level, unfashionable and lower grade stock had been disposed of and production had been reduced — all costly adjustments.

The company had completed its research into the production of finished leather and Hazlett said the product had been well received.

The company planned to decrease its reliance on crust leather and further diversify into contract wet blue tanning.

Hazlett was optimistic then about the company's new range of products, but accumulated losses were already up to $889,009, with shareholders' funds totalling $2,110,991 against paid capital of $3 million.

Net asset backing per dollar share was 70c, compared with more than 90c in the previous year.

Reporting to shareholders in March this year on the company's performance for the year ended December 31 1979, Hazlett said the net profit of $37,417 indicated that most recent policies were beginning to pay off.

In September this year, the directors announced a major scaling down of the company's operations — which meant redundancies of 38 workers — because of "a serious international downturn in world demand" (for crust leather production).

More emphasis would be placed on finished leather and wet blued lamb pelts and later wet blue hides, Hazlett said then.

In the preceeding months, the company had been studying a restructuring operation.

It had issued a don't sell notice to shareholders when a Christchurch company had expresssed interest. The company later backed off.

Rumours of a prospective buyer for the company began circulating again last week.

Sources suggested that an executive from W & R Fletcher Ltd might be interested in talking with NZLL.

Asked to comment on his arrival here from overseas, a Fletcher staffer said he was here to tour the company's wool and skin departments. He came out regularly, *NBR* was told, and there was no reason for any "write-up" on his visit.

When we asked if he would be seeing NZLL during his visit, *NBR* was told there would be no further comment.

Founding shareholders of NZLL include Fletcher Holdings, Borthwicks and the Canterbury Frozen Meat Co Ltd.

The week

Sheepmeat agreement

THE EEC reached agreement on the sheepmeat regime and New Zealand's butter access. New Zealand was granted higher prices for its lamb and butter.

AGRICULTURE Minister Duncan MacIntyre's involvement in the Marginal Lands Board Fitzgerald loan application is being considered by Parliament's Privileges Committee. But no decision is expected till the Commission of Inquiry into the loan completes its investigations.

OIL was struck at the McKee No 2 well in North Taranaki. Energy Minister Bill Birch called it "most promising".

THE Law Society approved advertising by the legal profession. The society's "lawhelp" scheme, which makes available legal advice for a fee of $10, will get the first ad exposure.

THE United States is planning a task-force operation in the vital Straits of Hormuz in the Arabian Gulf (the area through which half of the non-Communist world's oil passes). New Zealand was asked to join in.

POSTAGE for registered publications was cut by half the normal rates, instead of the planned one-third discount.

LABOUR Minister Jim Bolger said the Government would intervene in the Air New Zealand ground crew strike if it was in the public interest.

RAILWAY workers threatened strike action in protest against the Governments' plan to lay off about half of their temporary worker staff by January 31.

THE price of a bottle of milk will go up 3c to 21c from November 1.

AN inquiry will be held into the alleged banning of cameramen and journalists from a rugby match in Eden Park.

Exchange rates

AS at October 2 1980 $NZ was worth:

Britain	.4090
USA	.9775
Canada	1.1462
Australia	.8341
Fiji	.7721
Austria	12.43
Belgium	28.10
China	1.4297
Denmark	5.4234
France	4.0746
Greece	42.06
Hong Kong	4.8627
India	7.5183
Ireland	.4675
Italy	836.11
Japan	202.22
Malaysia	2.0651
Netherlands	1.9109
New Caledonia & Tahiti	74.06
Norway	4.7183
Pakistan	9.5502
Portugal	48.63
Singapore	2.0433
South Africa	.7329
Spain	71.75
Sri Lanka	***
Sweden	4.0432
Switzerland	1.5939
West Germany	1.7582
Western Samoa	.8853

Economic indicators

MANUFACTURERS' sales rose 16.5 per cent for the June quarter compared with the previous June quarter. Purchases were up 14.7 per cent, wages up 21 per cent, other operating expenses up 13.4 per cent, gross capital expenditure up 23.3 per cent and hours worked up 0.6 per cent. For the financial year 1987-9 manufacturing turnover increased 21.4 per cent from $8987 million in 1976-7 to $10,112 million. Numbers employed fell: for men by 2.6 per cent; for women by 4.5 per cent.

A CURRENT account deficit of $115 million was recorded in the overseas exchange transactions for August. In the year to August the accounts deficit is running at $543 million compared with $430 million for the year to August 1979.

THE New Zealand dollar was devalued 0.5 per cent in September.

The business week

ASSOCIATED BRITISH CABLES LTD reported an unaudited tax-paid profit of $736,433 for the six months to June 30 ($646,973 same period last year). An interim dividend of 7.5 per cent is payable on October 22.

Associated Pulp and Paper Mills Ltd will convert from using imported oil to coal/wood waste at its Burnie Mill in Tasmania at a cost of $35 million.

Bridgevale Consolidated Ltd will form a new company, **Bridgevale Mining Ltd**, which will encompass Consolidated's coal interests and overseas interests in Western Australia and Texas.

Burns Philp Ltd will pay a final dividend of 11 per cent on November 21.

The Canterbury Farmers Co-operative Association Ltd lifted unaudited net profit 67 per cent to $1,015,719 in the year to July 31. A final dividend of 8 per cent is payable.

Hanimax Corporation Limited reported an unaudited tax-paid profit of $A5,497,000 for the year to June 30 ($A4,283,000 last year). A final dividend of 4.5c is payable on December 1.

James Smith Ltd's unaudited tax-paid profit for the year to July 19 fell 18.8 per cent to $414,094. A final dividend of 11 per cent is payable on October 30.

Monsanto Australia Ltd acquired the total 42 per cent overseas holding of **Revertex Industries (NZ) Ltd** with approval from the Overseas Investment Commission.

L D Nathan and Co Ltd alloted 3,789,802 specified preference shares of $1.50 each to about 5700 shareholders in a fully subscribed issue.

Selby Shoe Co Ltd lifted net profit by 40.5 per cent to $181,562 in the six months to July 31. An interim dividend of 9 per cent is payable on October 29.

T L Jones and Son Ltd of Christchurch won a $525,000 electrical equipment contract supplying a major Hong Kong public works project.

The buyer of 98,197 shares in **Midlands Coachlines Ltd** was revealed as being C J Gilstrap.

The week ahead

MONDAY: International Egg Commission conference at Trillos in Auckland.

Arthur Barnett Ltds' annual general meeting in Dunedin.

TUESDAY: Commerce and Energy Select Committee looks at the Cinematograph Films Amendment Bill.

Health and Welfare Select Committee looks at the Plumbers, Gasfitters and Drainlayers Amendment Bill.

Local Bills Select Committee looks at the Impounding Amendment Bill and the Racing Amendment Bill.

Statutes Revision Committee looks at the Misuse of Drugs Amendment Bill, the Economic Stabilisation Regulation Bill and the Gleneagles Agreement Bill.

WEDNESDAY: Forum on the patterns of energy development resulting from Government policy sponsored by the Manufacturers Association at 4pm, James Cook Hotel, Wellington.

Commerce and Energy Select Committee looks at the Cinematograph Films Amendment Bill.

Labour and Education Select Committee looks at the Factories and Commercial Premises Bill.

Local Bills Select Committee looks at the Racing Amendment Bill and the Petone Borough Empowering and Alteration of Differential Rating Bill.

Public Expenditure Committee hearing.

Privileges Committee looks at Agriculture Minister Duncan MacIntyres' involvement in the Fitzgerald loan affair

Regulatory reform

PRESIDENT Carter has signed into law a measure designed to ease the burden of government regulation on small businesses.

The bill, which had been recommended by the White House conference on small business earlier this year, requires agencies to publish twice a year an agenda of rules to be issued during the following six months that will affect small business. This will give businesses a chance to comment on the proposed regulations and to participate in their drafting.

Regulatory agencies will be required to issue an analysis justifying any regulations and to participate in their drafting.

The week

Planning Tribunal chairman queries dam urgency

THE Government's plan to build a high dam on the Clutha River — and with it, the fate of a second aluminium smelter — is being appraised by a Planning Tribunal whose decision is expected in about six weeks. But the chairman — Judge W J M Treadwell — has indicated he is doubtful that urgency must be given to the dam project and the Ministry of Energy must be concerned that it may lose its case for the project.

But Works and Development Minister Bill Young has publicly stated that the Government will not be bound by the tribunal's decision. If the Government remains committed to a smelter, it may have to override the outcome of the lengthy and expensive hearings into the granting of water rights for the Clyde dam.

The six-man tribunal completed the three-week sitting in Queenstown last Thursday.

Evidence on the proposed second aluminium smelter dominated proceedings.

The tribunal will spend the next two weeks deliberating.

Mid-way through the hearings Judge Treadwell made clear he was not convinced that the urgency for a high dam at Clyde warranted the flooding of land.

"The Minister's case is that the high dam must go ahead to produce more power more quickly because of the smelter," Judge Treadwell told the hearing.

"It is relevant to the extent that urgency must be such as to warrant inundation of land of great value. This has not been demonstrated to my satisfaction," he said.

The tribunal has yet to decide whether the end use of electricity from the Clyde dam is a relevant consideration.

Works Minister Young . . . won't be bound by decision

A key witness supporting such consideration was Murray Ellis, a scientist with the Ministry of Works and Development.

Ellis claimed the sale of electricity to a second smelter was unlikely to proceed, and that a series of smaller dams on the Clutha pegged to demand was the sensible approach.

A high dam would lead to energy loss from spillage to the tune of about $140 million, he said.

The advantages gained in the event of a high dam being built and a second smelter going ahead were far outweighed by the large-scale loss incurred if the high dam was built and a smelter not established.

Scheme F, the proposal for five dams that incorporates a high dam at Clyde, is clearly what the Ministry of Energy is seeking in its application for nine water rights.

The ministry claims development of the Clutha for hydro power is paramount, and that Scheme F is about $70 million cheaper than the low Clyde dam Scheme H option.

The ministry is clearly anxious not to tie the high dam to the smelter. But evidence at the hearing established a clear link.

Various ministry witnesses established that;

• There is no "tag" on the Clutha for a smelter but the power from Clyde could be used for a smelter as there is nothing on the horizon requiring the same quantity of power;

• The Government has conceded to sell power to a smelter at a price below the cost of production;

• The need for urgent power means there is no alternative to the high dam option.

Ministry of Energy counsel K Robinson told the tribunal the ministry needed a lot of energy in a hurry, and submitted that what it was going to do with the energy was irrelevant.

But the objectors' counsel, C B Atkinson, described the high dam option as a "single-minded application for a single purpose." He submitted that the Scheme H low dam, which is 35 metres lower, would generate adequate electricity while leaving planning options open for multi-purpose usage and farming.

The Otago Catchment Board expanded on the theme by revealing a proposal that would lower the holding lake and produce more power than the high dam into the bargain.

The board's engineer, A M Torrance, claimed the high dam did not fully use the power generation potential of the Clutha.

The catch lies in the greater expense of the scheme and the fact that power from the Clutha would not be generated so early.

But the thrust of the hearing was clearly that without a smelter there is more merit in allocating the ministry water rights for a low dam than a high dam at Clyde, because demand outside a smelter is not as urgent or of the same magnitude, and a low dam allows greater flexibility in planning matters.

If the tribunal does decide to include the end use of the electricity in its deliberations then Judge Treadwell's view that urgency is unproven becomes important.

Either way, the Ministry of Energy must be concerned that the outcome for a high dam does not look encouraging.

The six-man tribunal now making deliberations includes Judges Treadwell and P R Skelton, and Messrs H L Riley, J F McKenzie, R E Mermans and G W Ensor.

Continental digs toes in

CONTINENTAL Airlines has dispelled prevailing rumours that the airline would be pulling out of the New Zealand services.

Airlines' vice president for sales and service, Barrie Duggan, said: "We don't intend to pull out nor do we intend to be pushed out."

And to prove his point he said the airline would be spending $100 million on two new planes to service the Pacific market.

Late this month Continental will start flying the Tasman from Auckland to Sydney. The flight will tail into the Los Angeles-Auckland flight three days a week.

Here Continental flew straight into flak from Air New Zealand. Continental's flight from Los Angeles arrives in Auckland at 7.50am providing passengers for the Auckland-Sydney flight leaving at 9.20am.

Air New Zealand's flight to Australia leaves at 9.45

Air New Zealand told Continental it couldn't service Continental's flights at 9.20 without putting on extra staff and increasing its charges. The extra charges proposed by Air New Zealand would cost Continental about $300,000 a year.

To avoid paying this, Air New Zealand proposed that Continental fly out of Auckland at 11am.

Nothing wrong with that, said Duggan, except we'd be flying out with empty planes, for example, Continental would be bringing in Sydney bound passengers to Auckland only to feed them onto the first plane out — Air New Zealand's 9.45 flight.

The week

Govt on threshold of releasing next batch of studies

by Allan Parker

THE Government is on the threshold of releasing the next raft of industry studies prepared by the Industries Development Commission — the investigations into the wine and packaging industries.

NBR understands the packaging report, which has been described by one source as "reasonably far-reaching in its coverage", has been approved by the Cabinet Economic Committee for release and only awaits full Cabinet approval. That approval may be given at today's Cabinet meeting.

The CEC is understood to have no objections to the reports' release, if not the decisions made on the commission's recommendations.

The wine industry report is still further down the track, although it, too, has been in Government's hands since June 30.

And last Friday the commission delivered its report and recommendations on the shipbuilding industry to Government.

All three reports will probably be made public before Christmas because the Government is anxious to prove its credibility and commitment to the industry studies programme.

To date, the textile industry study and the subsequent political decisions have been made public. The remaining 10 investigations by either the IDC or departmental officials have remained in varying stages of preparation.

The textile study and decisions, of course, attracted considerable flak among some sectors of the industry and raised fears in other industries that they faced drastic changes to their operations.

But some of the later reports will raise no question of possible damage to the industries concerned. Rather, they will emphasise possible aid to improve growth potential.

Government ministers have certainly been feeling the pressure from the various interested parties to the study programme following the textile moves.

So much so that Overseas Trade Minister Brian Talboys, in the role of Acting Prime Minister, made an extremely-significant policy speech in Wellington late last month.

The speech, to the annual dinner of the Wellington Manufacturers Association, has largely gone unnoticed but is perhaps the clearest statement of intent yet made by Government to continue the study programme.

Talboys said: "My message . . . is clear and simple. The Government will pursue its programme of economic change because it believes that is in the best long-term interests of New Zealand. And it will redouble its efforts to explain that programme to the country."

Talboys also spelt out Government thinking on protection policy. "Until this year there have been virtually no moves since 1972 to adapt our highly distorted and inefficient structure of protection which has grown haphazardly over 40 years to our current requirements for industrial development."

Changes to the protection system will mean "the development of a lower and less distorted protective structure".

He was just as explicit in his summary:

- "We are living in a fundamentally different world from the one New Zealanders knew 20 years ago;
- "To provide the jobs and incomes which the community demands there is no choice but change;
- "The current period is a difficult one. The Government has little room for manoeuvre but it is keeping the economy as steady as possible while changes take effect;
- "Many of the necessary steps have been taken but we must continue the momentum."

Talboys is known to have attached a high degree of importance to his speech.

As one source close to Government thinking commented: "It was a policy statement of some significance. It was intended to remove any ambiguity and indicate there was no equivocation on the part of Government."

That assessment has been confirmed by at least one trade association official who told *NBR*: "It is the most precise statement of Government policy and intentions I've seen.

"If someone asks me what Government is thinking, I'll direct them to that speech."

Continued from Page 1.

$4.3 million to a new total of $8 million.

All carriers in and out of New Zealand's three international airports now pay a landing fee of $5.75 per thousand kilos. The total weight is calculated on the maximum approved take-off weight of the particular aircraft as recommended by the manufacturer.

A Series 30 DC10 with an authorised take-off weight of 261,000 kilos would pay a landing fee of about $1,500. The landing fee is paid for just one movement through an airport, not once for landing and again for taking off.

The landing fee is based on two components: airways and airports.

The airways component is paid to the Crown for services such as air traffic control, telecommunications, rescue/fire services, aviation security and so on.

The airport dues are paid to the local responsible authority and pay for basic airport facilities, like passenger and freight handling, administration and other operating costs.

The three airports involved — Auckland, Wellington and Christchurch — all enjoy an operating surplus.

But the landing fee calculations also incorporate an allowance of 10 per cent on capital employed to fund future development.

Taking this into account, the airports were in deficit by $3,763,530 in 1979 and the Ministry of Transport proposition is for the international carriers to make up this deficit.

The airlines have objected strongly to this proposal. They have demanded figures from the Ministry of Transport to show such a plan will not mean that they are subsidising the domestic carriers, which pay an inflation-adjusting percentage of total revenue in landing fees.

(Air New Zealand, for example, pays 11 per cent of its operating revenue in landing fees for Friendships and above — 8 per cent for the airways component of the charge and 3 per cent toward airport operations).

Of equal concern to the airlines is the inclusion of Wellington Airport in the plan. Wellington Airport's total deficit last year was $1.5 million — about 40 per cent of the total.

Yet, the airlines argue, only DC8s operated by Air New Zealand and under charter to Qantas can use the airport at Wellington. Why, they say, should we have to pay for that?

While the airlines are angry at the proposal, they are unwilling to discuss it publicly.

Air New Zealand is in a particularly unenviable position as the Government flag-carrier. The increase would certainly hit it hard, given the current losses they are chalking up, but they are unable to publicly criticise their own Government.

The increase proposal is part of an annual review of landing fees. But fees have not risen since April 1 1977 while airfares have skyrocketed — domestic fares, for instance have gone up 80 per cent in that time.

One industry source told *NBR* that this is the first time the department has been willing to discuss proposals with the industry (perhaps because of the size of the increase).

"Before, they've just given us a take-it-or-leave-it position. We believe we have the right to know what we're being charged for," he said.

Such a breakdown of figures — comparing domestic and international figures — is standard practice in some overseas countries and "we would like to see the Ministry of Transport accounts in line with them."

A senior ministry official insists the department was merely "trying to balance the books under the previously accepted formula" for landing fees.

He told *NBR* the department was suggesting a user-pays formula providing it was politically and commercially acceptable. "But we do have to be careful that we don't kill the golden goose," he admitted.

It is difficult to make an accurate comparison with overseas landing fees if the suggested increase goes ahead.

But the departmental official pointed out that by assuming the highest airport landing fee anywhere in the world was $2000, the New Zealand fee would currently be about $1000 — with only 30 or so airports above us. Thus, an 87 per cent increase would certainly make us among the highest in the world.

The increase, if adopted by Government, would come into force on April 1 next year. The airlines will be anxious to make as much use of that time as possible to prove the ministry plan should not get off the ground.

Comment

Editorial

SO why the hefty boost in postal charges? The cynical may suspect that a Government anxious to minimise political opposition wants parties less well heeled than National to think twice about using the mail service to advance their cause.

But Postmaster-General Warren Cooper points out to critics of the new fees that there are cries from all over the country for expanded Post Office services, and those who are complaining about the new charges "can't have their cake and eat it too". He seems miffed that nobody has thanked him for holding telecommunications costs, and smugly satisfied that — as a percentage of the average wage — postal charges are less today than they were 25 years ago.

The postal workers union, on the other hand, is concerned that postal charges have been increased so heavily and at the Government's user-pays policy. It wants postal services cross-subsidised from the highly profitable telecommunications sector.

The charges are certainly having an effect on public attitudes. The last two significant postal charge increases resulted in business firms reviewing their postal habits, for example, and to their sending one article instead of several individual letters to branch offices, according to a Post Office official. The package business is being hit by competition from couriers. And a number of bulk users are doing their own deliveries.

The fall-off in demand for postal services raises the question: are the increased charges aimed at covering fixed costs which in turn will further reduce demand? Does the Post Office appreciate that for every letter that now won't be mailed, the service will lose not only the 6c extra cost, but also the 14c it was getting before? And if people are turning away from the mail service, is it because they prefer telecommunications or because they have been deterred by stamp costs?

The public is bound to wonder not only why the prices have been increased, but what sort of cost-benefit analysis was undertaken by the Post Office before the decision to hit postal service users yet again was made.

It is difficult to measure the economic benefits that result from the operations of a public enterprise. Many of them are indirect; they stimulate development outside the enterprise in terms of the national economic and social good.

The fact that Post Office activities affect the community generally is self-evident; that is why the Post Office is a Government service in virtually every country in the world. The rates charged for printed matter can affect both business and exports, which benefit, for example, from the circulation overseas of a country's newspapers. The extra costs imposed on business may greatly exceed the extra revenue which they yield to the Post Office.

The point of a cost-benefit analysis by a public enterprise, therefore, is to try to value the costs and benefits beyond those which enter into its own profit-and-loss situation. But we may wonder if outside considerations came into any analysis undertaken before the latest charges were imposed.

The result was that Cooper bowed to pressure from the printing and publishing industry and announced a modified discount for the postage of registered publications from one-third to half normal rates (to take effect from January 1) "There was a strong justification for modifying the rate," he explained. "The higher discount will help maintain a thriving and viable publishing industry and, at the same time, postal traffic will stay at a buoyant level."

The industry had to spend time and money in lobbying to impress on the Minister some facts of life which his advisers should have been aware of: publishers would find it difficult to absorb the latest increases. They predicted slumping circulations when subscription rates increased to recover postage increase and some feared they would have to close or reduce the frequency of publication, causing redundancies in the printing business. Two international publications have pulled out of New Zealand to be printed and distributed from overseas.

A public commercial monopoly is subjected to few constraints. If told to make money, it will tend to behave in just the same way as a private monopoly — but private monopolies are regulated to prevent abuse of their position. The row over the Post Office charges and the questions raised by the increases suggest that an independent regulatory commission should be set up to control state-operated monopolies, give effective meaning to "public interest", issue instructions and regulations, and consider submissions from the now virtually powerless consumer. It would set the constraints within which state enterprise managements operate to ensure quality, punctuality, service, choice, availability and the non-exploitation of monopoly power to the consumer's detriment. Businesses adversely affected by proposals to increase printed postal rates could make representations to show the damaging implications.

As guardian of the public interest, it would firmly impress on an organisation such as the Post Office that some proposed course of action were improper — something that no competitive firm would be allowed to do and something that therefore could not be implemented.

It would undertake cost-benefit analyses and refer findings to the corporation or report necessary action to the Government. And it would emphasise so-called social objectives as part of management responsibility.

As things stand, the only constraint on Post Office actions is political susceptibility to public opinion. Scant attention has been given to the fact that public corporations working to commercial rules require the same supervision and regulation as private monopolies.

Certainly, the Post Office is ploughing back its profits ($70 million last year) into the development of expensive telecommunications services. But if some of the money from the telecommunications sector was used to prop up the mail sector, the public would be unlikely to complain (just as it does nothing on the user-pays principle being applied to make farm communities pay for rural deliveries).

As things are operating now, it seems that the Post Office is running down its postal services long-term to reduce losses short term. That amounts, simply, to bad management.

Bob Edlin

Without word of a lie

Stacking the deck against competition

WHEN playing electoral poker against a sitting National Party Minister, one must realise the deck is stacked and the dealer makes his own rules.

Take Auckland lawyer Doug Graham for example. When Internal Affairs Minister Alan Highet let slip he was going to resign, Graham decided to have a go at the blue-ribbon Remuera seat.

Upstart ... what cheek, National stalwarts cried. He hasn't been around long enough to be a suitable party hack.

So Highet decided to stick around for another term, perhaps to teach the young pup a lesson.

And who paid Highet's electioneering bills?

Well, the taxpayer seems to have chipped in with some of the wherewithall.

The Government chief whip was sympathetic enough to let Highet off from his Parliamentary duties to fight Graham.

Graham had to pay his own way. Some say he was trying to buy the seat. At a conservative estimate, he spent $30,000 to win public recognition.

But when the selection of contenders for the party nomination had been made, Graham was prohibited by National Party rules from seeking publicity. That left the field wide open for Highet to speak from his ministerial pulpit and fan rumours about Graham stacking votes in the Hobson branch of the electorate.

Graham won the Hobson votes but the rules were later changed and the vote disallowed, allowing Highet time to rally more support for the next meeting.

National Party rules say that from the closing of nominations until the final selection of a candidate is made, one may not, without prior consent of the electoral committee or its executive, address branch or other meetings of the party, nor promote publicity for one's self.

All of which must have been a bit frustrating for Graham as chairman of a public relations company and more than frustrating for his prime promoter (unpaid), Faye Torrance, an Auckland PR executive. But it explains why Highet and his true-blue team could blast Graham as an election stacker and Graham could not answer back.

It might seem unfair. But that's Kiwi politics.

Oh, and don't forget the beer money

THE high cost of brass seems likely to prove a bit too much for the Music Federation's latest promotional plans.

The federation — more usually associated with the promotion of chamber music ensembles, choral groups and so on — had decided to set a precedent for itself by bringing to New Zealand a top British brass band (which may be visiting Australia soon). But the Grimethorpe Colliery Band is making pecuniary demands that has caused the federation to have second thoughts.

Fees for the band members (some 30 to 40 of them) are tied to the weekly wage scales of Britain's National Coal Board. And on top of full hotel expenses (accommodation and all meals), the band players require a subsistence allowance (which looks like a nice expression for beer money).

How Aussies inject a competitive spirit

WHILE the Medical Association and the Government come to cosy decisions about medical school intakes and doctor-population ratios, Australians think free-enterprise-espousing medicos should put their money where their oropharany is.

The Australian Medical Association has occasionally advocated 20 per cent cuts in medical school intakes, but more cautiously this year it sought 10 per cent with reductions over the next few years to gain a doctor-population ratio of 1:550.

But a Federal Government committee (which included Health Department representatives) refused to provide medical school cuts, opting instead for a system of limits on the numbers of intern training positions at hospitals in each state.

The committee's report, adopted by the Federal Government, said a student intake cut would "indefinitely preserve the strong monopolistic position presently enjoyed by the medical profession." It said the situation was all the more undesirable because of the high average incomes now enjoyed by doctors.

British protest about a Chile reception

WHEN it comes to telling the story its way, there are few countries to beat the gall of Chile.

Chile's Ambassador here went on the record just a week or two ago denying that his country's secret police had tortured a young Anglo-Chilean woman, Claire Wilson.

There had been no complaint from the British Government, he was reported as saying on a Radio New Zealand news broadcast. And Wilson's accusations were completely without foundation.

On the same day, the British *Guardian's* diplomatic correspondent, Patrick Keatley, reported in the *Guardian Weekly* "a formal protest was made on July 29 by the British Ambassador John Heath to the Chilean Foreign Ministry".

"A second protest was made in London on August 6 to the Chilean Ambassador, Professor Miguel Schweitzer. But the Chilean Government has refused to accept that Wilson was maltreated or that any apology is called for."

The price of credibility, it seems, is a subscription to a reputable overseas newspaper.

Fleeing Kiwi's flight to economic freedom

LIKE lemmings, Kiwis have been fleeing their native land for some years and while the statistics show fewer are leaving now, the exodus goes on.

The reasons are not hard to see, even for those remaining: they are succinctly summed up in a letter sent to Hong Kong's *South China Post* by an expatriate.

"If you are sane, skilled or energetic and are aged between 16 and 60, then New Zealand is no place for you," the correspondent wrote.

"The New Zealand Government encouraged my 'endeavours' by confiscating almost half my total earnings in income tax alone, during my last year there, distributing the proceeds to a multitude of worthless causes.

"It has been quoted that 'socialism is the art of being generous with someone else's money'. This is certainly true in New Zealand where a study conducted three years ago revealed that a man earning $10,000 a year actually paid 85 per cent of it to the state, a combination of income tax and high taxes on commodities, services etc.

"This enormous tax revenue funds grossly inefficient public departments, (employing about a quarter of the work force) the remainder being distributed to a host of eager recipients (and voters) in that welfare state.

"Not surprisingly, productivity has declined dramatically as the citizens lose interest, and New Zealand slips several places in the world standard of living index each time a survey is taken.

"New Zealand is a strikingly beautiful country endowed with many natural resources, including an intelligent and (given a chance) industrious workforce.

"Although my heart lies there, it would be financial suicide for me to return in the present immoral political climate."

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Brockie's view

Comment

It's the state controls that need restructuring

by Michael F Dakin

"THE difference between advice and criticism is that you can ignore advice." I read that in the *Reader's Digest* many years ago and am constantly reminded how true it is.

The bee in my bonnet right now is buzzing around because of the current "restructuring" wave that is sweeping New Zealand.

I am all for restructuring that leads to greater productive efficiency and satisfaction for people in New Zealand. But I hate to see waste and the probability is that restructuring initiated by the Government will have a short term effect on improving our way of life, then fade away.

Why will this happen? It will happen because the very mechanisms that control the state are also in need of restructuring. Any appearance of restructuring amongst the State mechanisms needs to be examined closely, rather than taken at face value. On the surface we might think that improvements in the Department of Trade and Industry will bring us far-reaching and long-term benefits. You might also think the changes in the structure of the Railways, rearranging the computer facilities in the Health Department and comparable changes in other areas of Government might all add up to more efficiency in the State Services.

This is not so.

Lasting improvement will not be achieved because:

(1) All Government departments and agencies are organised along functional lines that were designed over a century ago — and copied, in the main, from the British models.

(2) Reorganising on the lines of purpose, rather than function, while desirable will be ineffective because the Government conducts its own business through functional roles assigned to Cabinet Ministers instead of assigning work on the basis of what we need to accomplish.

To make myself clear, "functions" are the things we do — to fullfil our role. So a Cabinet Minister acts in a functional role to provide education, or social welfare, or regulate trade and industry.

"Purpose" oriented activities make us ask what we are doing and why. By doing this we are able to reach higher levels of co-ordination, becoming more efficient, reducing costs and producing goods, services — and answers — that people find acceptable and satisfying.

So what? Where's the evidence that Cabinet Ministers and Government departments play these "functional roles"? And what does it matter if they do?

It matters very much if we pay the price — measured in terms of direct cost and frustration, antagonism, a sense of going nowhere and, for some, outright defeat.

Let's look at some of the evidence where it most matters — the end result of these activities.

As a small businessman, I approached the Post Office to have telephones connected to my new premises, have my business listed in the directory and, advertise in the *Yellow Pages*. And as a private citizen living in Auckland, I want a telephone installed in my home having previously been a subscriber in Wellington.

For each of the needs I have named, I had to approach the Post Office separately (if you run a large business, someone on your staff is wasting time doing this for you) and correspond over a period of nearly three months to get a result that met my needs.

Now, 15 months after that episode the Post Office has failed to follow-up on correspondence asking for listing in the *Yellow Pages*. This service has been closed 12 months in advance of the next Auckland directory being published in August-September 1981. When the Post Office releases its next directory, there will be criticism from businessmen who, like myself, cannot get a service from the Government monopoly. [illegible] monopoly only by default.

There is certainly room in the Auckland market for an enterprising organisation to collect, publish and sell its own version of the *Yellow Pages*.

Customs licensing is no better. The Customs Department was established to bring revenue to the Government first, and regulate the import of goods second. Neither of these objectives implies giving a service to the consumer. That's because the power lies with the Government department, not with the end-user.

So, we find that the Customs Department is also organised on functional lines. To get an import licence for, say, exposed film video tape and video equipment you will find yourself talking to three separate sub-sections — at least, in the Auckland office. To seek an exemption from sales tax or Customs duty, you go off to a separate floor.

This consumes your time (or your staff or agent's time) and it provides employment for more people than may in fact be needed to meet the objectives of gathering revenue, controlling imports and providing you with a service.

One could go on describing the shortcomings in Government department service, department by department. That would serve little purpose other than to show that the problems are common across all departments. But before we move on, let me comment on the "restructuring" of the Government's information-handling process — computers.

We are all aware that all is not well with data processing in the state services. We accept some of the shortcomings because we make those mistakes ourselves but, in the past year, we have read about failures with data processing in the departments of Inland Revenue, Health and Police. I am not sure how public the Transport department's problems were but with normal Government department head office/regional antipathy, transport certainly dragged its head and fell behind schedule. We pay for all this in direct and hidden dollar coasts as well as low value performance.

Most of my shots have been aimed at specific Government departments, we can see that of all Government departments, we can see that they suffer from the same characteristic faults. They are organised on functional lines that are not geared to the need of the consumer. This makes them self-serving. However, no blame should be attached to the Government departments themselves; they are, after all, what the Government has made them.

I do not mean the Government of the day but, rather, the successive Governments we have elected. That makes us responsible too. I find it curious that Cabinet meets every Monday to make decisions about issues that have no business in the Cabinet room.

Sure, Prime Ministers need to co-ordinate the activities and actions of their ministers; and the cabinet needs to be open to the influence of Caucus. But action decided on at this level becomes increasingly difficult, even impossible, to effectively co-ordinate as it passes down the functional line of command.

Well, you might disagree with my analysis of where things start to go wrong. You won't deny, I am sure, that things do go wrong, often and to our personal dismay.

The roles of Cabinet ministers should be reorganised and redefined with consequent restructuring of the State mechanism that services the ministers — and the electors.

At the start of these comments I pointed out the difference between advice and criticism. Personally, I have had enough of the criticism and I would like to see action leading to results.

Perhaps the Government will take advice.

Michael F Dakin is managing director of [illegible] Learning Processes Ltd, Auckland.

Letters

CER and whiteware

I READ with interest Colin James' article "CER: Australian emphasis is on complementarity" (*NBR* September 8) issue.

As many of your readers are aware, our company has been involved in Nafta trade in whiteware for a number of years. From the ourset the arrangements made by our company encompassed what is now referred to as "complementarity" and, together with our Australian whiteware partners, we have made investment decisions where we specialise in particular products.

We believe this rationalisation provided a much better utilisation of capital resources in both countries and the arrangement led to steady growth in trade over an eight year period.

While in the last 12 months there have been major changes in the terms of our Nafta arrangements our company will continue to maximise its opportunities and we are confident our Nafta trade with Australia will continue to increase.

In providing this background I must correct a statement made in the adjoining article "Restructuring risks in broader relationship", where reference was made to the area content rules.

The example cired in the article related to whiteware stating that the area content requirements effectively forced "New Zealand refrigerator makers to use expensive Australian compressors." It went on to state this meant "no deal".

It is important that I correct this statement because we have been incorporating Australian compressors in all production exported to Australian under Nafta 3:7 arrangements and will continue to use Australian compressors in the future.

I am sure the record and the statistics of our exports to Australia will demonstrate that this requirement has not prevented our company from continuing and expanding exports of whiteware to Australia.

Don Rowlands
Managing Director
Fisher & Paykel Industries Ltd

Service not servility

I READ the article "Tourism – let's promote the attractions we have" by Lynette Rankin [*NBR* September 15] with great interest and would agree with a lot that was said. However, the article was spoilt by a number of inaccuracies and generalised statements which were, at the least, debatable.

I wish to make two points. Firstly, what the association and others are saying is that New Zealand needs a better mix of visitors. For too long we have concentrated on a fairly narrow market segment and we must now look for new and promising markets in other areas both geographically and demographically.

Youth Hostel Associations and the visitors they encourage are an important part of the tourist industry but then so are wealthy one-day visitors from luxury cruise liners.

Secondly, apart from the earning of overseas exchange the industry's main economic benefit to New Zealand is in providing employment. Why people seem to see the service within the industry as being "servile" I do not know.

The provision of good courteous and friendly service is important in a wide range of industries from retailing through banking to the law profession and can be an extremely satisfying vocation.

However, if the choice is to be between being servile and unemployed I know which I would choose.

A C Stanlford
Chief Executive
National Travel Association Inc

King of Kiwi PR own-up!

INTERESTING to note that according to the *Admark* section (*NBR* September 15), Allen Fenwick Ltd has "crowned itself King of Kiwi PR".

I just wonder what criteria were used in the bestowing of this self-awarded accolade. For example, your text states that Fenwick employs 12 staffers plus freelancers.

Eric White Associates, my company, employs more than twice that number in offices located in Wellington, Auckland and Christchurch, in addition to a further half-dozen in our affiliate Government Relations agency.

Fenwick claims "reciprocal ties" with consultancies in Australia, America and Europe. Eric White Associates has 15 of its own offices spanning Australia and South-east Asia, many of which work for our New Zealand clients. Further, Eric White Associates is part of the New York-headquartered Hill & Knowlton Group, the largest public relations organisation in the world, with operations in more than 20 countries.

You list some big names as Fenwick clients and while we do not publish full client lists on the grounds of client confidentiality, it is well known that we work for many top companies and organisations including: Feltex, AMP, the plumbing industry, Repco, Arthur Yates, Datsun . . .

Allen Fenwick is a fine company, as is David Brett . . . but the biggest?

John Butler
Managing Director
Eric White Associates

U S and export incentives

THE article headlined "Devco next target for US blitz on export incentives" (*NBR* September 22) contains a number of statements on United States Government policy and actions which need clarification.

Firstly, whereas we too have heard that the National Wool Growers in the United States are concerned about the application of New Zealand export incentives to processed lamb cuts, the United States Government has not taken a position on this issue, much less launched a "blitz".

Secondly, the United States Government has not claimed that the New Zealand export incentives scheme contravenes the GATT.

Thirdly, the article strongly implies, if it does not in fact assert, that the visit of Dr Shirley Coffield and Mr Rolland Anderson to Wellington this month is somehow related to United States Government concerns regarding New Zealand export incentives. This is wholly incorrect. Coffield and Anderson will appear under the auspices of the United States International Communication Agency as part of an ongoing effort by this Embassy to acquaint New Zealanders with aspects of American policy which affect the relationship between the two countries. Coffield and Anderson, who will discuss general issues involved in our bilateral trade, have no authority to deal with specific cases, but are here to provide general background information on American laws, regulations and attitudes.

The whole subject of export incentives, countervailing duties and "subsidies" is highly complex and best discussed by experts with access to specific data on specific cases. The Embassy certainly would not want to attempt such a discussion based on the information presently available to us.

Rather, what we have always tried to emphasise is that the United States is committed to as free and open a trade policy as possible, where price, quality and service remain as the key determinants of success in our market.

Charles B Salmon, Jr
Charge d'Affaires, ai
Embassy of the United States

Pre-selection prejudices

THE article about the National Party's Remuera pre-selection [*NBR* September 22] echoes 19th century prejudices.

The description of a successful Auckland male as having amassed a lucrative practice, a pretty wife and a mock tudor mansion in the best part of town, will have hurt and disturbed a large number of your readers (I hope).

As demonstration that your journal does live in the same world as the rest of us I trust that some future article may allude to a successful Wellington female person as having amassed a profitable business, a handsome husband and a splendid residence in the best part of Hereta-unga!

John J Elliot
Upper Hutt

Devco company shareholders

I WANT to draw your attention to a factual error in your September 22 publication.

On page five in the article "Devco next target", your reporter states: " . . . Devco, the wholly owned New Zealand Meat Board subsidiary . . ."

The Meat Board has never owned Devco. The shareholders have always been – and still are – New Zealand freezing companies.

However, I would like to commend you on the well balanced and timely editorial in the same issue.

R J Evan
Information Executive
NZ Freezing Companies Assoc (Inc)

More letters on Page 23

"I'm puzzled . . . you seem to be suffering from overwork, but nobody does that anymore."

Politics

'Restructuring' – the idea with a life of its own

by Colin James

"WE should not have started talking about restructuring," a minister lamented last week. He had a point.

Restructuring has started without the Government. But, since brave spirits like Hugh Templeton and Co have been talking about it for a couple of years now, the Government is getting the blame for the ill-effects.

Once upon a time, "restructuring" was a Government catchword to give the impression of a grand design, a reshaping of New Zealand's industrial destiny. Now it means uncontrolled loss of jobs. How did it get like that?

Start with the word "higgledy-piggledy" (no nasty pun intended). "Restructuring" grew from instinct.

A new generation, confident, self-reliant and eager to control their own working lives, took over the engine-room of the National Party during the 1970s and began to put their men into Parliament.

Their dominant concern was to curb the power and scope of the state. They cut their teeth on the Post Office courier service and the potato quality regulations.

Then, rephrasing the enemy as "red tape", they knocked together the National Development Bill to implement a development scenario for an energy and industrial restructure being written at great speed by Bill Birch, Barry Boll and a few mates.

Those were heady times. Power had slipped temporarily from the old pros' hands after the 1978 election set back and the freshmen had a ball.

"Restructuring" emerged from logical deductions drawn from the anti-state, growth-for-growth instincts. If the Government was to be got out of people's hair, it meant less protection and more reliance on the market [articulated cogently by Ian McLean].

And that in turn meant inefficient firms and industries would be automatically weeded out and the resources so freed made available to efficient firms and industries.

Thus would the economy be "restructured", not by the will of the people expressed politically, but by the "invisible hand" of the market [which is or may not be the will of the people, depending which bit of Adam Smith you quote].

The 1979 Budget inched down that road: slight flexibility on import licensing, a speedup on the industry reviews.

It aimed "to set a course which will encourage the reshaping of the economy in a climate in which initiative and enterprise can function more flexibly and freely".

The trouble is that invisible hands do not give a worried populace much to focus on amid gathering uncertainty.

Some, it seems, are born restructured, some achieve restructuring and some have restructuring thrust upon them. By the time the ordinary person was becoming familiar with the buzzword and the Government had begun to rebuild the hives – the textile plan, meat industry delicensing, flirtation with Australia and so on – the ordinary bloke was already being stung.

Five years of balance of payments problems, made worse by oil price rises, chronic inflation and unemployment and low growth – made intractable by a bleak international economic climate – began to squeeze even some of the big pips.

Mosgiel paid the price of moving too slowly in a market that had already contracted drastically. Auckland Farmers Freezing moves showed that even geographical rationalisation in a strong industry can hurt.

And neither one was Government induced. Jobs were being shaken loose without the Government lifting a finger. Ominously, unemployment replaced inflation as the key "urgent problem" in the Heylen Poll.

Trouble was, in both industries the Government had loudly trumpeted intentions to lift fingers in the name of "restructuring".

Trouble was, too, the Government did not have policies in place to ease the shakeout. Tentative retraining and other labour measures in the 1980 Budget were too little, too late.

By September, the Government was looking like a zoo-keeper that had left open the door of the cage of a wild animal on the assumption that the animal hadn't been delivered yet.

"Invisible hands" do not steady the nerves in such circumstances. People fearing the loss of an arm or a leg want skilled handlers with nets or tranquilliser guns on the scene right smart.

At least they want skilled tiger-riders who can steer the beast to safety. In non-metaphorical terms, they want to be shown where they are going to end up and assured they will get their whole.

They want signposts, with the distances written in large numbers, easy to read. Instead, the Government has told them they will get to the promised land if only they share the Government's particular brand of economic navigational faith.

You can wheel up economists from all over the world who believe that their particular faith is the right one. Who doesn't believe in the libertarian doctrines? But faith ain't half so comforting as a compass and a map.

Unless the evangelists are of the charismatic sort. Which is where the Prime Minister comes in – or rather, does not come in.

The party thinks he should play evangelist. He doesn't.

The Prime Minister is a fast-footwork economic manager who made his reputation by looking authoritative on television and outgunning everybody round the Cabinet table with a mesmeric ability to digest complex material fast, retain it and selectively regurgitate it in debate.

He never was much on visions. Leaving New Zealand no worse than he found it was the best he could manage after the 1975 election.

Neither has he found the "more market" brigade's vision all that attractive.

While the freedom-fighters chewed up bureaucrats in caucus committee hearings, the bottom end of the Cabinet plotted breakneck growth screenplays and the amateur legislators committed drafting blunders in the National Development Bill [regardless of its intrinsic merits], the Prime Minister was sidelined practising his fancy footwork.

The riproaring sweep of the 1979 new broom was a bit like a peanut farmer taking over the White House. It was amateurs' night at the Globe – full of vitality, short on technique.

They could have done with a steadying hand. Not a deadening hand, which they would simply have thrust aside. The steadying hand of a respected old pro.

But the Prime Minister was too much the strayed sheep of the flock. And, though he is feared – even admired – for his ferocity, he lacked the natural authority of personal esteem.

He had already by end-1978 been judged guilty of the twin crimes of alienating nice Nationalists with his "personality politics" bark and good conservatives with his economic interventionist bite.

And now, as unemployment worsens and inflation refuses to fall, there are even doubts about his once revered ability in detailed economic management.

In other words, it is no longer just the style of the man the party feels uneasy with: it is the substance as well.

When Nationalists blame the Prime Minister for the East Coast Bays reverse, couching it in terms of "failing to get the message across", they are now talking about more than his way of talking.

Yet are they being wholly fair? Was there in fact a message rigorous and coherent enough to be got across? Can you transmit faith?

And how solid is the faith? What has archpriest Derek Quigley been doing emphasising the risks in the energy development programme and the importance of "proceeding on a wide front", involving small business ("a major political issue in the 1981 election campaign") as well as big business.

Prime ministerial apostasy? No.

Quigley's comments have been in the context of strong endorsements of restructuring and big-industry investment. The Prime Minister has veered between apostle and agnostic on such matters.

But the predominant feeling among National MPs is that they cannot go back now. Going on with "restructuring" is their only chance of winning next year, even though international disruptions will put the economy under yet more pressure.

So Brian Talboys took up the leadership mantle with a speech which, though it did talk of "steady, managed change", also extolled "economic freedom" and stated flatly that "successful countries do not cling to outmoded or uncompetitive industries or technologies".

It was not a recitation of the Quigleyite catechism. But it did subscribe to the faith.

Can the Government, having missed what seemed to have been a golden opportunity to win hearts and minds during the past 12 months of Opposition paralysis, yet kindle in voters' bosoms the hope that delivers elections? Can it refocus attention on as yet unsullied objectives and away from means now suspected by the public?

The odds are against it. But I have given up betting.

Economics

Bettering Mrs Thatcher

Economics Correspondent

WHILE the world's attention has been focussed on Britain's Prime Minister Margaret Thatcher as she tries to restore her country's ailing economy through strict monetary reforms, New Zealand has also been quietly trying out monetary reforms. Policies introduced here have had less sensational effects than those introduced by the Thatcher Government, but appear to be more restorative.

Mind you, our financial system has had a long way to come. Prior to 1976, our banking system was inconvenient and inflexible. Those with cheque accounts were restricted as to where they could cash their cheques because banks did not guarantee their own depositors' cheques presented to other branches. A depositor travelling out-of-town would be charged for a long distance call to the home branch of the same bank, even if the cheque was as small as $10.

Households wanting to stash away their personal savings used to face two equally unpalatable choices. They could either deposit their funds in the traditional financial sector, where they earned interest below the rate of inflation, or they could deposit their funds in institutions offering higher interest rates and risk losing most of their investment.

Dealing in overseas funds was a problem. It was easier (and often less costly) to visit an overseas bank, rather than try to make complicated arrangements through a local bank.

But things have changed. Merchant banks dealing in foreign money transactions began doing business in a big way in the mid-1970s. In March 1976, a monetary package was introduced which removed interest rate controls on the borrowing and lending rates of most deposit-taking institutions and raised interest rates on public sector securities to more competitive levels.

Removing interest rate ceilings enabled the traditional financial sector to be more competitive and promoted flexibility within the financial system. Increased profitability meant that financial institutions could design services more in line with the needs of their clients.

The increased flexibility enabled the financial sector to better serve the public and it improved the potential for public debt policies to be used effectively to manage economic activity.

The strongest test of public debt policy came in 1978-79 when the Government's Budgetable 2 deficit reached about $1450 million. This deficit was mainly financed by selling some $900 million in Government stock to the non-bank private sector (compared with $355 million sold in the previous year). This sale of Government stock offset the large injection of money into the economy from the large Budget deficit, and helped to bring about a fall in the rate of inflation to the lowest level since this Government has been in office.

Whether the use of public debt policy was a major reason for this fall in inflation and has aided any improvement in economic activity is impossible to tell.

The Government has not addressed the issue of setting explicit monetary targets and the Reserve Bank has had to be pragmatic in setting monetary objectives.

As the chart shows, growth in the narrowly defined money supply (M1) accelerated rapidly after March 1978. But there were dramatic improvements after December 1978 when the annual rate of growth in M1 fell from 20.3 per cent to 5.5 per cent in March 1980. And the average rate of growth in M1 between 1976 and 1980 was below the average for the previous four years. After 1976, M1 averaged a growth rate of about 9.5 per cent compared with a rate of 15 per cent during 1972 to 1976.

The average rate of growth of M3 was higher, at 17 per cent during 1976 to 1980, than it was in the four earlier years (14 per cent). But growth in the latter part of the decade has been less variable.

And rate of growth in the money supply is likely to have been higher for M1 and M3 if it was not for flexible interest rates and public debt policies.

But, despite a more restrained monetary sector, economic activity in the country has worsened, if anything. The CPI measured rate of inflation reached 18.4 per cent this June, unemployment for September is expected to pass 60,000 and the balance of payments deficit is crawling nearer to the previous record high. If the aim of monetary reform was to improve these indicators of economic activity, it has not yet been successful in doing so.

Since ours is an economy where both the Government's deficit and the balance of payments have a strong impact on monetary conditions, there are limitations to the ability of monetary policy to offset the effects of other economic changes.

While the Reserve Bank has been successful in instituting the machinery for getting growth in monetary aggregates under control, this control could have been more effective if the Government had adopted consistent fiscal (budgetary) policies.

The New Zealand Institute of Economic Research argues in its latest issue of *Quarterly Predictions* that injections from the Government's Budget and the balance of payments will be smaller in the coming year.

"Although our estimate of the Government's Budget deficit before borrowing at $1170 million is upon last year's deficit of $1027 million, we anticipate a similar level of cash injection to the domestic monetary base."

The reason for this is that more of the Budget deficit will be financed overseas and the amount to be financed internally will be about the same as last year. And injections from the balance of payments are expected to fall.

NZIER reasons that "if the Government wished to achieve slower growth in monetary aggregates (M1, M3 and private sector credit) this year, this might be possible without an increase in internal borrowing and hence without putting pressure on interest rates." And current rates of growth in the money supply "would probably be sufficient to accommodate... the growth in domestic sapending without putting any severe pressure on corporate liquidity and general transactions requirements" or "on short term interest rates" (see P V O'Brien, *NBR*, September 29).

This is the year to see if monetary policies can be used effectively to improve economic activity through the control of inflation.

The onus is on the Government to keep its deficit at about the level forecast in this year's Budget. Or to put it another way, this does not seem to be the best time for the Government to radically change its fiscal policies in order to stimulate more economic growth.

Of course, it is unlikely that getting monetary aggregates under control and restraining inflation will result in a significant fall in unemployment before next year's election. But unless the Government wants to create more jobs itself, it is probably too late for expansionary policy to be effective in stimulating private sector job creation before the next election.

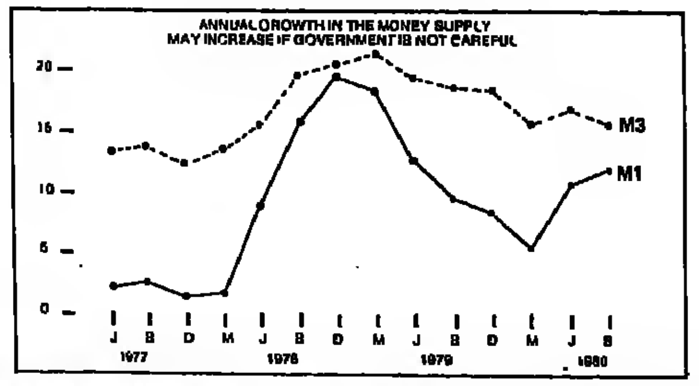
The private sector has wised up to electioneering economic policies. By letting monetary policies have a chance to work effectively, the private sector may be encouraged to risk investing in job creating capacity. And interest rates may become more attractive.

Finance Minister Rob Muldoon has been busy this last week trying to get the International Monetary Fund to reform the world's monetary system. He wants the fund to adopt a substitution account which will allow countries with surplus American dollars to substitute them for the IMF's special drawing rights. This scheme should limit widely fluctuating values of the world's major curreneics.

Let's hope that while the Prime Minister is advising the rest of the world about how to do business he can keep his own house in order upon return.

There are a large number of interesting policies which could be included in a new package. Households could be further encouraged to save by making interest earnings, below the rate of inflation, tax free. Firms could be encouraged to invest by adapting their taxation to some form of inflation accounting.

But [illegible] simply [illegible] economic activity is not likely to improve the economy. And it will make it impossible to judge for sure if our modest monetary reforms are really working.



M1 is the narrowly defined money supply: it measures the value of notes and coin held by the public and cheque account balances at savings and trading banks.
M3 is a broader definition of the money supply. It includes M1 plus all other deposits with the Reserve Bank, trading banks, savings banks, finance companies, stock and station agents and official short-term money dealers (net of deposits of these institutions with each other).

Will the Pirates' navigator break Tinkerbell's light?

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses the company accounts.

THE 1980 Christmas pantomine season will open at the Industrial Development Commission theatre in Willis Street, Wellington, on Tuesday November 18, with the first night of "The Damsels and the Pirates," or, "Will the Pirates' Nnvigator hreak Tinkerbell's Light?"

NBR obtained a tentative cast list last week (see box), and a synopsis of the plot.

We can assure all mums and dads that this will probably be the best show on the pantomine circuit this year. The children will be enthralled, but they should be told that the panto is unusual.

While it is in three acts, the first two acts were played to capacity audiences last autumn.

The forthcoming show is act III, which might confuse the children, but the producer/director claims he knows what he is doing — why play it all at once when you can keep the house full—and, anyway, the split season is due to the unavailability of the Good Fairy until November.

The show was to open at the Chase-NBA theatre on The Terrace, Wellington, but the size of the cast and the volume of preferential bookings when the box plan opened on September 30, required a larger auditorium; eat your heart out, Roger Hall. (Limited door sales will be available on November 18, and then most days until Christmas. We think there will be more room in the New Year).

As the show opens, the two pretty damsels from the forest are in the clutches of the wicked pirates. The damsels' mother has sought the help of Tinkerbell to free her daughters. Three wise men are rushing from the East to the rescue.

The pirates have hired a navigator to snuff out Tinkerbell's light, but the good fairy called on the Dame, the principal boy and the two judges, to help her and Tinkerbell defeat the wicked pirates and send them back to their horrible homes in Auckland and Wellington.

The chorus takes part regularly in the performance. They are friends of the damsels and their Mum. *NBR* understands there was a bit of trouble in casting the chorus, but the producer settled for some companies, and our tentative cast list represents them by their top people. Some of the chorus people are not known yet, but we are sure they will be seasoned troupers, ready for curtain call on November 18.

It is also not clear yet whether the principal boy will be available, so the producer has wisely engaged an understudy.

This show seems to have everything. The original book *Dawn Raid*, by the experienced South African Harry Oppenheim, was a best seller, and Hugh Fletcher's adaptation is charming.

Hugh's dad, James Fletcher, and some of Hugh's friends, gave a bit of advice on the stageplay, but it is basically all Hugh's work.

This young playwright obviously has a great future if he can continue to produce work of such quality.

NBR understands that Hugh is a little upset at the casting of Tinkerbell, but the producer/director (who of course hogged the star role of the Dame) seems happy.

NBR can recommend "The Damsels and the Pirates" as good Christmas entertainment.

Will the wicked pirates have to release the pretty damsels?

Will the navigator snuff out Tinkerbell's light?

Will the Dame get ... throw-away lines as in ... and II?

Will the good fairy ... wicked pirates?

Will the pantomine ... before Christmas 1981?

All the answers will ... on November 18.

Book now.

Dramatis Personae

Not necessarily in order of appearance

Dame	*Kevin O'Brien*
Principal Boy	*Colleen Dewe*
Understudy to Principal Boy	*Harold Sandgrove*
Judges (two)	*Subject to final audition*
Good Fairy	*Alan Monaghan*
Damsels	*Alwyn Carter*
	Richard Carter
Damsels' Mother	*Kenneth Carter*
Pirates	*James Fletcher, Hugh Ri... Bryan Johnson, Francis R... Peter Kemp*
Three Wise Men from the East	*Oji Paper Company (subject to audition) Sanyo Kokusaku Co Hokuyo Suisan Co*
Chorus	*Douglas Smythe, Ronald Trotter, Lyn Papps, Ray Hansell, Michael ... Knox, Earle Stewart, ... Martinborough (subject to audition), Uncle Tom Cobbeley et al.*

Producer and director — *Kevin O'Brien*
Producer's assistant — *Justin Kerr*
Based on the book Dawn Raid by Harry Oppenheim, adapted for stage by Hugh Fletcher.
Lyrics by Hugh Fletcher
Music by Kevin O'Brien, Alan Monaghan, Alwyn Carter & Bryan Johnson.

THE cast and production group acknowledge with gratitude the financial support of Robert Muldoon and Lance Adams-Schneider, without whose support this costly production could not have been presented.

West Coast floats mining shares in boom climate

A NEW float had to happen in the present climate for mining shares, but it came from the unlikely source of the West Coast's only listed company.

The announcement last week that Bridgevale Consolidated Ltd is to float off its mining interests to Bridgevale Mining, with a capital of $4 million, has an historical irony, because the now "depressed" West Coast was the scene of a great mining boom last century.

Those were the days when Kumara (present population about 400) boasted a peak of about 40,000, living in tents and shacks, while Hokitika, just down the road, at one point reached around 80,000 wild and woolly people, including the dancing girls.

(Some of the miners' descendants write investment articles for weekly newspapers, but disclaim any knowledge of the dancing girls).

Even in 1950, before the Licensing Control Commission started sorting the country out, there were 14 "pubs" in the main street of Kumara, although some were little more than a keg or two on the bar.

The Bridgevale float has more than local interest, because this time a mining operation, based in New Zealand, is taking into its activities leases in Western Australia and a share in an oil and gas lease near Coleman, Texas, which is at present showing potential of 300,000 barrels a day, as well as Bridgevale's coal deposits at Charming Creek, near Westport.

The Western ... leases hold interest, ... combination with the ... activities being brought ... new company, give the ... company a reasonably ... base, which differs from ... various companies floated ... the end of the 1960s and ... early 1970s.

The float is timed for ... November, after all the necessary stock exchange approvals are obtained and the prospectus is available to the public. At ... stage all the details ... have to be finalised. *NBR* understands that the Auckland firm of Lenndle Whiteman will be organising the public floatation subject to stock exchange "approval to act."

I said here two weeks ago (*NBR* September 22) "all ... need now is some bright ... float off a new mining company. When that happens ... have come full circle, and ... ple will wander around ... nation's watering holes ... learnedly ... menting ... 'anomalies' 'grid patterns' ... the usual pattern of speculative fever".

The Bridgevale float ... not come into that ... although there is ... speculative element ... company's proposed ... so it will be interesting ... how the market ... idea.

The rest of the market ... in a static phase, apart ... adjustments to ... stocks, which ... reasonable medium ... spects.

The indices are wandering in a narrow band, and seem unlikely to show much improvement until the end of the year, although there may be a few price adjustments for traders when their interim reports come to hand in the next few weeks, if they prove better than analysts' anticipations.

On balance, the market will probably ease a little in the period through to December, subject to whatever bag of tricks Finance Minister Rob Muldoon produces after examining the latest economic trends on his return to the country.

The demand for money is moderate, so interest rates and so on should maintain their present levels.

The Ceramco redeemable specified preference issue came to the market last week, with a dividend rate of 16 per cent, the same rate as Feltex is offering in a specified preference issue.

While a dividend on specified preference shares differs from an interest rate, there are similar features (tax-deductible in the company's books, while taxable in the hands of the recipient). These issues are a rough guide to the long term debenture rate.

At the short end of the market, the Development Finance Corporation's "step-up call bonds" offer 11 per cent at call after 90 days, and will attract 14 per cent after 1982 if investors keep their money in.

The 11 per cent is pitched in the middle of the wandering short term rate, which can vary even daily and between organisations, depending on the particular demand for funds.

The 14 per cent rate is not an adjustment to medium and long term rates. It comes into effect in 1982, and then will only apply to that proportion of $20 million which stays with the corporation.

Anything can happen between now and April 1982, but it would be false to assume that the DFC expects a medium term rate of 14 per cent that year.

The interest in high yielding stocks with a brighter outlook showed up in the 18.7 per cent in CPD's share price between the annual meeting on August 29 and September 30. But other companies which recovered have yet to impress the market. The Andrews and Beaven profit was shrugged off, and the shares had a higher dividend yield after the preliminary announcement than before.

Last week the shares were $1.27 and the 14 per cent dividend (all tax free and 2 per cent above 1979's payment) yielded 11 per cent, compared with 10.3 per cent before the result. The present effective yield for an individual on a marginal tax rate of 60 per cent is therefore 27.5 per cent, when compared with other taxable returns.

Note: The writer neither owns now has a beneficial interest in any of the securities discussed in this article, but is likely to apply for Bridgevale shares.

Analysing annual accounts: Challenge Corporation

CHALLENGE dropped its distinctive "magazine presentation" in the 1980 annual report, but the new (or back to old) style document loses nothing in the change.

This year's presentation may even improve the understanding of shareholders and of Challenge's other audiences, by cutting out the "chat".

The disclosure level is excellent. Analysts will spend happy hours dissecting the figures and recasting them in numerous combinations.

Chairman Ron Trotter is a fan for disclosure. At a briefing last week, from which this writer was unavoidably absent, he apparently told a disclosure anecdote, about a fellow who came to see him in late 1971, and asked whether there was merit in stock and station companies merging their interests.

Trotter was then working on the National Mortgage acquisition, but he gave six sound reasons why mergers would not be worthwhile. Suitably impressed, the fellow (a much younger and more naive O'Brien) later wrote an analysis of the reasons.

According to Trotter last week it took the lad some time to see the funny side.

Well, that's the way I heard the anecdote, admittedly secondhand. Ron either forgot the punchline, or his "disclosure" still needs a brush-up.

At 4pm, on the beautiful summer afternoon of Friday, January 21 1972, after some skirmishing in his office above Wellington's Lambton Quay (the then NMA general manager, Harry Huse, was also present), our Ron offered a wee apology for the previous November's mislead. Honour being satisfied, it was accepted, and we got on to the merger story.


RON TROTTER . . . fan for disclosures

We can now get on with Challenge's 1980 report, having made *full* "disclosure" of yesteryear's events.

The Broadlands acquisition last year and the 28.2 per cent interest in Tasman Pulp and Paper, make comparisons with 1979 difficult, because the financial structure is considerably changed.

Term liabilities jumped $240 million, mainly through consolidating Broadlands accounts into Challenge. The Tasman influence shows up in "shares and debentures in associate companies", which went from $7.7 million to $43.9 million.

Tasman and Broadlands contributed to Challenge for only part of the year, further complicating comparisons between 1979 and 1980. This is probably the main reason why net profit to average total assets fell from 4.1 to 3.8 per cent. A relationship between pre-tax profit and average total assets, which remove tax fluctuations, may be preferable to some analysts, but at least Challenge recognises the principle that all assets must earn a return, and that the figure is relevant to a company's real performance.

The group also includes "cash earnings" to average total assets, which is another ratio generally recognised as important.

Challenge's "cash earnings", are the amount of cash funds received from all sources, including depreciation ($31,428,000) less group share of associate companies' profit ($2,022,000), which is $29,406,000 less minority interests in subsidiary companies ($150,000) which produces $29,256,000.

At last we have a company which gives the readers the relationship of "real" cash flow to its total investment. This relationship removes the distortions which occur when massive sums are brought to a holding company from equity accounting profits of associates.

The problem with Tasman's profit is well known. Tasman earns 100 per cent of its profit, and puts it in the profit and loss account.

By the miraculous nature of the new Trinity, 56.4 per cent of that profit comes to Fletcher, and 28.2 per cent to Challenge, resulting in Tasman's profit being accounted for 184.7 per cent.

(It will be interesting to see what the Reserve Bank does with this problem when it prepares its regular analyses of company statistics).

The acquisitions last year raised group total assets to $762 million, and altered substantially the mix of Challenge's business. Is it still appropriate to refer to the company as a "pastoral" group when only 25.5 per cent of gross assets are invested in the Wrightson-NMA stock and station subsidiary, when that subsidiary accounts for 42.2 per cent of shareholders funds, although it produced 60.7 per cent of net profit?

The last percentage will probably change in the current year when the full share of Tasman and Broadlands' profit shows up in the holding company's books.

Challenge's current cost accounting statement managed to turn the record 1980 profit into a loss after adjustments for inflationary factors.

Under CCA accounting, the acquisition of Broadlands raised the "circulating monetary adjustment" (based from $32.8 million in 1979 to $81.4 million), while the gain to "capital maintenance reserve financed from borrowings" (the counterbalancing entry which takes account of the repayment of borrowed money in depreciated currency) went from $28.4 million to $76.2 million.

The addition of a "cost of sales adjustment" (the difference between the sales realisations and the cost of replacing the goods at inflated prices) of $17.3 million ($7.6 million in 1979) left the "owners" with a net loss after taxation of $4 million, including the result of associate companies.

The "real" figure is actually worse, because the share of associates, particularly Tasman, is unadjusted for CCA. Tasman produced inflation adjusted accounts, which had a similar effect to the Challenge statement.

The shareholders will not worry too much about CCA, given the result for the year, and the annual report's high standard.

O'Brien on business

Institute expects easy-does-it approach to persist

THE "gradualist" strategy is expected to persist in management of the New Zealand economy, according to an extensive study published last week by the Institute of Economic Research.

New Zealand's Medium-term economic outlook and regional implications, by institute research officer John Gallacher examines three possible strategies for economic development in the medium term, and assesses the likely growth in real gross domestic product (GDP) for the five years from 1978 to 1983.

The book updates a 1978 study by the institute's Eric Haywood, on the country's medium-term outlook, in the light of later developments and necessary changes to the earlier forecasts.

Gallacher's strategies are given as "SI – gradualism"; "SII – accelerated structural change"; and "SIII – accelerated structural change". While SII and SIII could perhaps have been given different names to avoid confusion, they are detailed in the report.

Gradualism, which is attributed to the Economic Monitoring Group of the Planning Council (although that body may not have been the first to use the term), means "the pace of structural change is expected to be modest under the regime but with minimal disruption of living standards and employment in the short term".

SII means "accelerated structural change – through more widespread use of less regulated market forces, more rapid changes to relative prices but with continuing compulsory or quasi-compulsory wage restraint".

SIII is "accelerated structural change – through attacking internal inflation by means of wage/price restraint under a form of voluntary social contract".

SECTORAL DISTRIBUTION OF REAL GDP INCREASE
Average, annual per cent rate of growth

	12 Years ended March, 1978	Forecast, 5 years ended March, 1983
Agriculture	0.9	1.5
Hunting and Fishing	2.8	8.0
Forestry and Logging	4.3	2.5
Mining and Quarrying	6.6	6.0
Manufacturing	3.9	3.0
Electricity, gas and water	8.8	4.1
Construction	1.4	2.0
Wholesale and Retail trade, Restaurants and Hotels	1.7	1.7
Transport, storage and communications	2.4	2.0
Financing, real estate, Insurance and business services	2.8	2.0
Community, social and personal services	2.1	1.0
Real gross domestic product	2.5	2.2

Gallacher gives four reasons why a conservative attitude may dominate: the current gradualistic approach.

- General appreciation that while future growth in living standards is under threat, the present living standard level is still high and not under serious threat.
- A general feeling that New Zealand's economic prosperity is assured with the accelerated development of natural resources, including natural gas, coal and forestry.
- The structure of important national institutions tends to react only slowly to new circumstances, in such a way that group rather than national interests predominate discussion.
- While unemployment does not raise the same volume of political outcry as in earlier eras, any threat to actual living standards conflicts sharply with the electorate's high expectations.

"For the above reasons and the fact that attempts in the recent past to cut the wage/price nexus (without causing severe industrial disruption) have been unsuccessful, we consider that the gradualist strategy will persist."

Gallacher admits that forecasting which particular strategy will persist is an exercise of personal judgment in "a sphere in which it is said that a week is a long time".

The report says it is difficult to foresee that political support for either SII or SIII will be sufficiently strong to challenge the current gradualistic approach.

That is a refreshing wind of realistic thinking in a field which the more fanciful (often "commissioned" – so it does not have to take responsibility) schemes of the Planning Council have dominated publicity since 1977.

Gallacher refers to "expectations", a term which is receiving attention round the world when devising economic policies. People expect their living standards will be maintained, and that, if they appreciate the need to grapple with economic downturn, they still expect only minor disruption and then only short-term.

That is another [illegible] of reality, which [illegible] tical forces with [illegible] sirability. It is sterile for [illegible] fashionable theorists (usually [illegible] job security, relatively [illegible] incomes, and often [illegible] superannuation at the end of the day) to waffle on "restructuring" in the [illegible] shifting people from [illegible] countryside to new jobs, about "average household income", (which means [illegible] households do well [illegible] others manage on the [illegible]) they fail to take account [illegible] people will tolerate.

Whether the people [illegible] economically "right" [illegible] "wrong" is immaterial [illegible] in this country they [illegible] decide. We lack an [illegible] sufficient size to [illegible] policies of some of the [illegible] Council's more [illegible] commissioned documents [illegible] example, *New Zealand [illegible] term foreign trade [illegible] structural adjustment [illegible]* Australian [illegible] University's Peter [illegible] others, a document [illegible] winded and esoteric [illegible].

Most of Gallacher's [illegible] an examination of [illegible] growth by the 11 [illegible] sectors in the table [illegible] readers will have to [illegible] the mathematical equ[illegible] various chapters, but [illegible] obtain a reasonable [illegible] the likely outlook [illegible] course, to dramatic [illegible] the external economy [illegible] medium term.

In general, the out[look] [illegible] tough for the forecast [illegible]. The average rates in the [illegible] imply growth of between [illegible] 4 per cent in 1982-83. [illegible] we are already two years [illegible] the five-year track [illegible] figure is achieved in 19[illegible] the country will be doing [illegible].

The document can be obtained from the Institute of Economic Research for [illegible].

Stock Exchange weekly review

FOR WEEK FRIDAY SEPTEMBER 26 TO THURSDAY OCTOBER 2

	Last sale	Week's high	Week's low	Turnover
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Last sale	Week's high	Week's low	Turnover
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Last sale	Week's high	Week's low	Turnover
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5.73% PR	72	...	...	0
WYNTHR AUST, 40C	230	...	...	0
WORMALD	270	...	...	0
5-7.5% RR	100	100	100	100
N.R.CARPENTER,50C	254	...	...	0
V.SUTHERLAND	130	...	...	0

Liquor Industry

Rising canned beer imports rattle local brewers

by Gordon McLauchlan

AUSTRALIAN brewers hove captured 48 per cent of the New Zealand canned beer market — and their share is increasing.

Industry observers predict that the Australians will be catering for 60 per cent of this country's canned beer demand by the Christmas peak cutting $3 million in sales from the three New Zealand breweries over the whole year compared with 1979.

That leaves the local breweries with a diminished share of a declining market, in which total beer consumption has dropped by 9 per cent in the past 12 months.

In October last year, soon after the New Zealand Government had decided to cut duty and allow beer to flow freely over the Tasman, the Australians held 5.4 per cent of the canned beer market. By the end of the thirsty summer, in March this year, the market share had climbed to 35.4 per cent.

It has made steady gains since, reaching 40 per cent in August and may have passed the holf-way mark.

Canned beer — more than bottled and draught — has a comparatively high summer peak demand. That is why some industry insiders say the Aussies will cut deeper yet into local sales this coming season.

The three New Zealand brewing companies — Dominion, Lion and Leopard — claim the Australians have an unfair competitive advantage because they can get their cans cheaper and pay no duty on them when they arrive here full. Importing empty cans by a New Zealand manufacturer draws a 25 per cent tariff.

The New Zealand producers say cans from Wattie Industries or AHI cost around 19 cents each in this country, fractionally dearer than the Australians can land a full can.

At more thon $2 a dozen, can costs are about double those paid by Australian brewers. All packaging costs — including bottles, cartons and crates — are said to be around twice the price this side of the Tasman.

One brewer here has said it would be better business for New Zealand manufacturers to set up business in Australia and export to this country.

The sales tax of 30 per cent goes on the finished product — a full can of beer — and because of the higher start price of the New Zealand can, the cost differences are compounded in favour of the Australians. Add to all those cost advantages the scale economies of Australia's longer production runs and price competition is impossible under present conditions, the Kiwis says.

The Brewers Association of New Zealand has approached the Government twice and is hoping to get in again soon in a bid to level out what it sees as the odds favouring the Aussies.

It claims our breweries are happy to compete — but on an equal footing.

Among the changes it has sought so far, according to industry sources, is a switch in the application of the sales tax to the contents of the cans, excluding the cost of the cans themselves.

It is known that, during the initial approaches, the Government said it would wait until the market settled down and the novelty of Australian beer faded — an opinion no longer supportable by the facts.

Opinions within the industry vary on whether the Government will make a move in favour of the New Zealand manufacturer. Most feel it is unlikely.

If the present situation continues, the Brewers Association claims, jobs at the breweries will start to diminish.

The Hastings producer, Leopord, which is already losing money, is the smallest of the three, the most dependent on canned sales and the most vulnerable.

The Government made one attempt to help New Zealand brewers by loading duty on stronger beers in this year's Budget. The low-alcohol beers were allowed a reduced beer duty but increases ranging up to 43 per cent fell on higher alcohol by volume products, in which category most of the Australian beers were then included.

The Australians have been able to absorb the duty in some cases, however, and have shifted to standard beers in others.

But price does not appear to be the only explanation for the demand for Australian beer. Pint bottles produced in New Zealand — cheaper than any of the canned products — have also dropped in demand.

Many merchants are selling the Australian beer at prices comparable with those for the local product — in many instances even higher — and making a hefty margin of profit.

One brewers' report says: "A major marketing advan[illegible] Australian imports is the [illegible] mercial incentive to the [illegible] chant. In addition to [illegible] markups, he gains a [illegible] able cost-saving and [illegible] benefit from handling [illegible] tralian beers.

"Stocking New Z[illegible] beers is much more cos[illegible] the debt for both beer d[illegible] sales tax is incurred whe[illegible] ing delivery into the sto[illegible].

"With imports, the [illegible] paid only when an ord[illegible] cleared from bond for d[illegible] direct to the customer, and [illegible] tax is paid at the end of [illegible] month following the [illegible], which can be several [illegible] later."

The local breweries [illegible] lose out altogether. The[illegible] agencies for the Au[illegible] brews and get a [illegible] merchant's mark-up [illegible] through their own out[illegible].

Fosters, for [illegible] believed to have the [illegible] piece of the market [illegible] Australian beer, is [illegible] through Dominion Bre[illegible]. But the gain is much le[illegible] case of the breweries [illegible] on its own product [illegible] also gets the [illegible] mark-up.

This means that [illegible] brewery-owned or [illegible] outlets, the Australian [illegible] are not pushed hard at [illegible].

Industry sources sa[illegible] huge inroads into the [illegible] here have been made w[illegible] the Australians pushing [illegible] promotionally. If the A[illegible] decided to move in with [illegible] blond market razzamata[illegible] the summer season, the[illegible] almost wreck the [illegible] production of canned bee[illegible].

Although the [illegible] product represents only [illegible] cent of the New Zealand [illegible] beer market, it represen[illegible] lions of dollars worth [illegible] almost certainly would [illegible] fewer jobs in the industry.

Admark

Labour changes agency for third time in a year

by Warren Berryman

FOR the third time this year the Labour Party is changing advertising agencies.

Last April, as the Labour Party conference loomed, Monahan Dayman Adams and Partners dropped the party, before it started work, due to political pressure from other clients.

Rod Squires, of Squires Advertising Ltd, took over where MDA left off and handled the party conference and the Northern Maori and Onehunga by-elections on the understanding that if he did a good job he would handle the 1981 election campaign.

The Labour Party handled its own East Coast Bays by-election campaign without ad agency assistance.

Three weeks ago Squires dropped out of the running for the election campaign account. His reason:

- The Labour Party was too slow to pay its debts and he could not afford to be its banker, specially in a $500,000 election and campaign.
- He had arranged at least two strategy meetings between his agency and party leaders. Although attendance was confirmed, no-one showed up — or apologised — for their absence.
- Squires found himself temporarily short-staffed when his manager left for Australia.

Party president Jim Anderton denied slow payments.

It appears that the total amount owed to Squires was about $30,000. The bulk was paid with a cheque from Anderton's company – Anderton Holdings Ltd – not a cheque drawn on the Labour Party.

Anderton acknowledged this was true, but said he had been reimbursed by the party next day.

The remainder of Squires money, some $4500, was paid over only last week – months after the debt had been incurred. Again this was paid with an Anderton Holdings cheque.

Squires said he was led to believe he would automatically get the 1981 election campaign account if he did a good job on the Wellington party conference.

But some time after the conference the Labour Party started playing the field, opening the door to submissions from other agencies.

Squires did not make a submission.

Anderton said the party had not decided on an agency, although some (he would not specify how many) submissions had been received.

NBR understands the job will almost certainly go to Albatross Advertising Ltd, a small eight-man agency that opened its doors only in January.

Macharman's director, Bob Harvey, has been acting as advisor to Anderton on advertising matters.

Harvey picked MDA for the Labour Party job. But MDA quickly dropped the party.

It appears that some of MDA's other clients were unhappy with the noises Labour MPs were making in the Beehive.

Anderton called for "the strongest possible public protest" against what he saw as a move by Prime Minister Rob Muldoon to control and dominate the media. "The Labour Party has been prevented by naked pressure from using the odvertising agency of its choice," Anderton claimed.

Harvey then picked Squires for the job. Since Squires dropped out, Harvey has been spending a lot of time with Albatross.

If Albatross gets the job, and Albatross directors mentioned no reason why they shouldn't, the battle between ad agencies to sell politicians to the public promises to be a mouse-versus-the-elephant affair.

The National Party account went to Dobbs Wiggins McCann Erickson whose billings this year will be $10 million and whose parent company, Interpublic, had $2.9 billion billings last year.

Albatross, set up by three ex-Radio Hauraki men, is expecting billings of between $2.5 and $3 million for 1980, its first year in business.

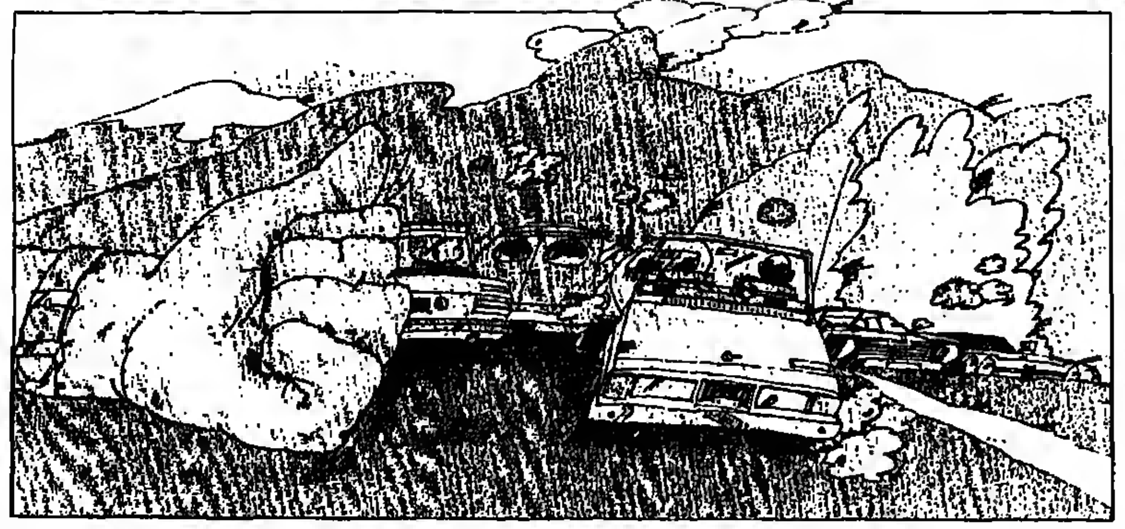
Ferrall said Albatross had been given the nod by Bob Harvey to take the Labour Party account. "This account puts an agency in a make or break situation. I personally think the Labour Party can win if only by default," Ferrall said.

On a more business-like approach Ferrall said his agency had discussed budgetary control with the Labour Party, to make sure the agency would be promptly paid.

But Anderton said the party had yet to decide on what agency it would use. "We are looking at putting our own professional team together," he said.

But in 1972 a slick professional ad campaign took the Labour Party to victory. In 1975 party officials started telling the advertising professionals how to do their job and Labour went down in a National Party landslide.

How long can GSI take carless days?



A while ago GSI Advertising parted company with Datsun.

And, all in all, it was a damn shame.

But, as we all know, accounts come, and every so often, they go.

And we will always wish Datsun every success for the future.

However, with all the experience, knowledge and enthusiasm harnessed over the years with Datsun, we are, once again, yearning for a motor vehicle account to get our teeth into.

In short, GSI just can't settle down with carless days.

A problem we're going to resolve, and soon.

In fact, the sooner the better.

And, right now, we've got some very interesting things to say and show that should convince you GSI are destined once more for the road.

So call Marsden Inch and come along for the ride.

G/S/I

We're not going to take carless days much longer.

Gray Scott Inch and Associates, 12 Heather St, Parnell, Auckland. Ph. 775 019.

The Ad that never made it.

A while ago, we planned to run an ad in NBR.

It never made it.

The reason is pretty obvious if you read the copy.

The government beat us to print you might say.

However, that didn't dampen our determination to work, once again on automobile advertising.

Then, lo and behold an opportunity came our way.

We took it, and are now pleased to announce, G/S/I are back behind the wheel

We're knocked out, we don't mind telling you.

Not only did we win an auto account but a great one at that.

Todd Motors.

We'll be working with Todd car, truck and tractor divisions.

Including great names like Lancer, Valiant and David Brown.

Carless days.

They're now, truly over.

Thanks to Todds, we're back on the road again.

Todd
TODD MOTORS LTD.

The Agency that did.

G/S/I

Gray/Scott/Inch & Associates Ltd., 12 Heather Street, Parnell, Auckland. Phone: 775-019.

Suburban publisher prepares to battle media giant

by Gordon McLauchlan

AUCKLAND'S only independent suburban throwaway, the *Howick and Pakuranga Times*, is about to fight the media giant, New Zealand News Ltd, for the loyalty of the affluent eastern suburbs reader.

The small Howick company is planning a weekly regional throwaway from the first week in November to compete with the *Eastern Courier*, owned by Courier Newspapers Ltd, a majority of whose shares are owned by NZ News.

In August, the Howick newspaper began inserting an eight-page advertising supplement in each of its 18,000 copies.

The supplement, called the *East City Advertiser*, was then delivered to 28,000 other homes in Auckland's eastern and south-eastern region — the main circulation area of the *Eastern Courier*.

Times managing-director Roger Smith says that move was taken because Howick and Pakuranga advertisers wanted to reach out to shoppers throughout the region.

For 20 cents a centimetre more than the normal *Howick and Pakuranga Times* rate; advertisers could promote their wares through the supplement as well.

The only suburbs in which the *East City Advertiser* doesn't duplicate the *Courier* circulation are Newmarket and Parnell. The *Courier's* circulation is 48,000, and the *East City Advertiser's* 46,000.

The response has been so encouraging, says Smith, that he has decided to launch a fullscale regional throwaway with 28 to 32 pages, to be delivered on Wednesdays (the same day as the *Courier*) with "above all, a very good regional news coverage".

He says the *East City Advertiser's* news will deal with the implications of the whole eastern region of the city; whereas the *Courier* carries news relating to various local pockets within the region, each item of no interest to readers living in other communities within the paper's regional circulation area.

Smith's *Howick and Pakuranga Times* has been a conspicuously successful community newspaper. His company also publishes the retail throwaway, *Real Value Weekly*, and several occasional one-off advertising sheets for some of the numerous suburban shopping centres throughout Auckland.

Some observers are predicting a high-powered battle among the throwaways as soon as Saturday shopping opens in Auckland.

Many of the suburban malls are preparing now to promote heavily as retail entities to attract shoppers from all areas of the city.

However, despite his track record, Smith faces a considerable adversary, and many would predict for him the same fate that met the last independent to stretch out over a large suburban circulation area, the *City News*, which folded last year.

Sydneysiders latest glossy sells to smart set

by Lindsey Dawson

AUSTRALIA'S latest glossy magazine, the *Sydney City Monthly*, launched in August, is proving popular with Sydneysiders. The first issues, following the same format as the very successful city magazines published in the United States, have been a sell-out.

The magazine, aimed at Sydney's smart sophisticates, is published by Murray Publishers Pty Ltd, whose stable also includes *Australian House and Garden* and the *Home Journal*.

Its circulation is 35,000 and some are being imported for New Zealand city and airport bookstores.

Sydney City Monthly, like its American counterparts in Los Angeles and Chicago, provides entertainment and information for moneyed people and those who like to pretend that they are.

There are social pics, art, theatre and concert news, interviews with local celebrities, restaurant guides, real estate (with the prices starting at about $150,000) and enticing ads for travel, high-class consumer goods and expensive cars. Feature articles range from the trivial (such as asking celebs how they spend their money) to the terrifying.

The second issue carries instruction on what to do when the Russians push the button. Sydney is bound to be hit in a global war, says the magazine, and it nominates some of the buildings designated as fallout shelters.

The Ocker penchant for bad taste shows through in an accompanying fashion feature, "Going Out in Style", which features screaming models in the latest gear, staggering over burning heaps of rubble.

Sydney City Monthly costs $2 in Australia, and $2.50 in New Zealand. New Zealand sales representative Ross... of Wellington said that New Zealand advertisers were expressing quite a lot of interest in the new publication as it is aimed at specific upper socio-economic segment of the Australian market. The cost for full-page colour ads is $1500, and $900 for mono.

Pharmaceutical cuts to cure health-spending ills

by Allan Parker

HEALTH Minister George Gair and his department have been giving the pharmaceutical industry a few headaches. Cost-conscious Gair thinks the industry could cure one of the country's health spending ills — now up to $1100 million a year.

The department's annual report notes that "expenditure on pharmaceutical benefits is a matter of concern to the Government".

Prescription drugs from the country's 1150 chemist shops cost the taxpayer about $130 million last year — about half the total cost of health benefits (including payments to doctors) and just over 10 per cent of the total cost of trying to keep us all fit and healthy.

Pharmaceutical industry sources agree that all health spending — running at 15 per cent of total net Government expenditure — needs investigation for cost restraint. But, they add that any public expense of that magnitude needs careful scrutiny.

And they make three observations:

- Health spending represents half the amount spent on social services such as superannuation and unemployment benefits;
- Expenditure on health as a percentage of total Government spending has dropped slightly in the last decade while spending on social services has risen.
- Three out of every four dollars spent on health services are paid out on wages or salaries, representing more than five times the amount spent on building, equipment and drugs combined.

But why, the industry is asking, is the Government attempting to use the prescription medicine market as the scapegoat for increased health spending?

Even George Gair seems a little uncertain. He told delegates to this year's pharmacy conference that he recognised pharmaceutical costs had not increased disproportionately when inflation was taken into account.

He said: "Those responsible for holding pharmaceutical costs roughly in line with inflation have cause for some satisfaction in their achievements."

The industry suspects it has become the target for political rather than economic measures, aimed at reducing health care costs against a background of an intensifying struggle for a share of the health care dollar.

Because it operates on a profit-making basis and its direct cost to the taxpayer is easily quantifiable, it appears to be fair game for criticism.

But, says Pharmaceutical Manufacturers' Association (PMA) economist Guy Scott: "Far from being a major contributor to the health care cost explosion, the pharmaceutical industry is an essential factor in its control. And we are certainly not as labour-intensive as hospitals."

The PMA also points out that modern medicines have allowed health administrators to cut out high-cost facilities such as long-term hospital beds and replace them with more productive services such as short-term hospital treatment facilities and extra medical staff.

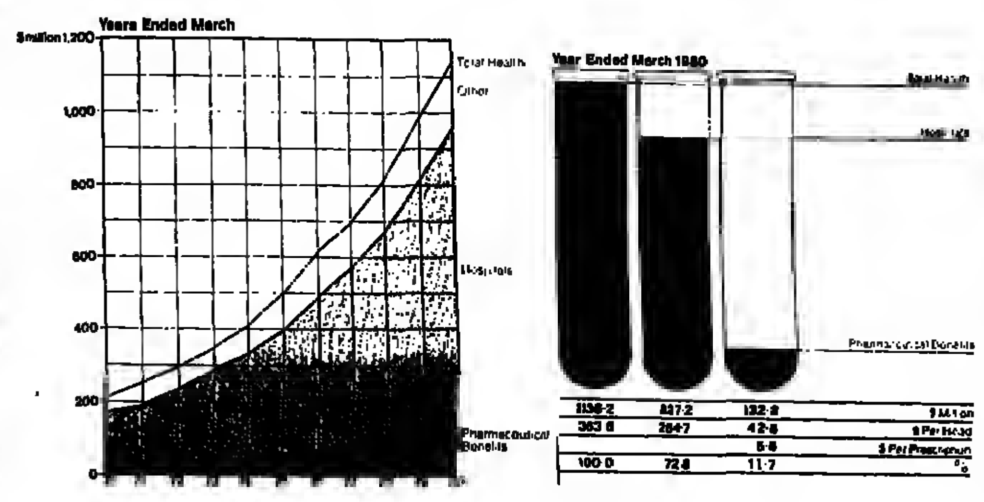
Two years ago the *Modern Medicine of New Zealand* journal underlined this point in an editorial on the treatment of mental illness in New Zealand. If proportionally the same number of people were resident in mental hospitals in 1974 as in the mid-60s, then the hospital services would have cost an additional $55 million for the year ended March 1974.

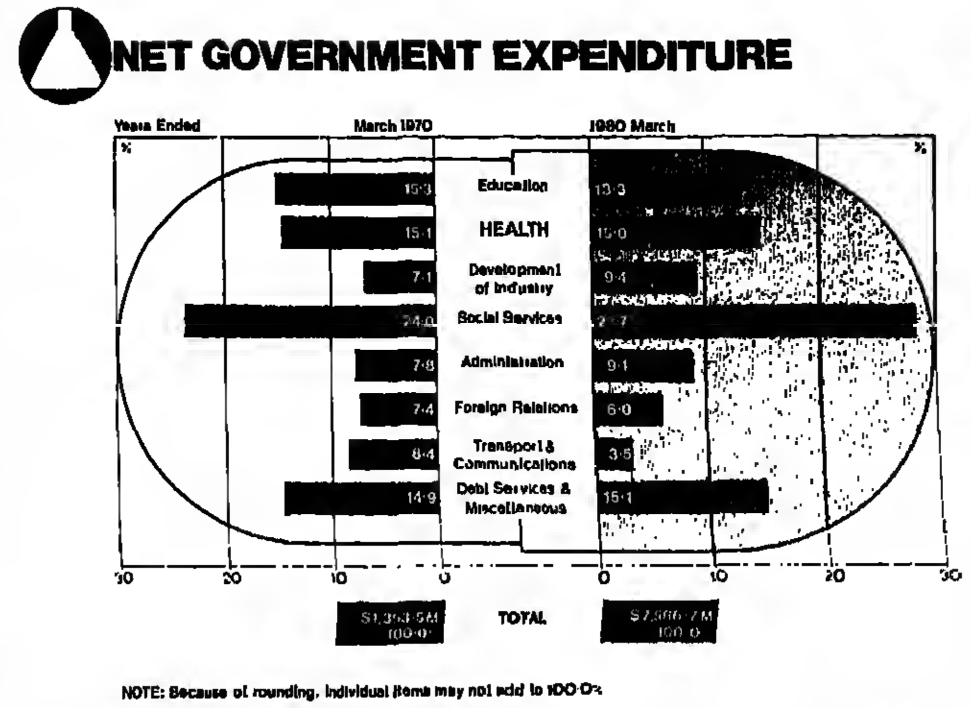
No new psychiatric hospitals have been built in New Zealand during the last two decades, reflecting the impact of new pharmaceuticals.

Figures such as these, say the pharmaceutical manufacturers, illustrate the contribution prescription medicines have made to the effort to restrain total health spending. Also, they do not reveal indirect savings to the community such as the saving of lost labour.

One industry source said, "Anything that can be done to cut down on the use of expensive hospital facilities is worth doing. Pharmaceuticals, while not providing all the answers, certainly play a part in this."

Prescription producers are already under rigid price control by the Department of Trade and Industry and the Health Department. And the industry asks where further savings could be made without disrupting the industry.





NOTE: Because of rounding, individual items may not add to 100·0%

Maximum selling prices for medicines produced or distributed by the 50 pharmaceutical manufacturers represented in this country are set by the Department of Trade and Industry which must also approve increases.

Because of the competitive nature of the prescription medicine market, many companies sell at prices less than those set by the department.

The Health Department also has a say in pricing policy, largely because it is the sole buyer of prescription medicines. The Health Department compares prices in other countries and competing products of a similar nature in New Zealand. If necessary, the department can then reduce the price even further.

A recent survey of 23 companies showed that many top-selling product prices paid by the department were below those set by Trade and Industry.

The bulk were between 5 and 30 per cent lower but there were instances in which the price differential was up to 90 per cent lower.

And although there is no retail price competition for prescription medicines, recent trends in chemist retailing in which open market competition for other lines has developed between chemists, grocers, supermarkets and department stores has seen increasing negotiations for discounts and bonuses.

PMA economist Scott comments: "Market forces and Government action have constrained profit margins at all levels in the prescription medicine market.

"Extra savings are impossible without forcing firms to reduce non-essential costs and services (such as less-used, slower-selling medicines), or diversify into other areas of activity. Any savings made could well be illusionary as the reduction in service would increase costs in other areas of health care."

And that, argues the industry, is precisely what the Government is trying to avoid.

Scott also warns that Government action has already discouraged investment in pharmaceutical manufacturing in New Zealand. If pursued more vigorously, the whole distribution chain could be damaged. He argues that because demand for the industry's products does not come from the buyer — the Health Department — but from the non-paying public, profit margin restraint cannot be regarded as a sensitive regulator.

Rather, he believes, no one factor can be considered in isolation. Any possible cure for medicine spending must come by examining the total health care system and the relative efficiency of all sectors within it.

Business management game

Cross-section of teams enter semi-final round

OF the 20 teams which have won through to the third and semi-final round of the 1980 Business Management Game, eight managed to knock out the leaders at the half-way point in the second round, according to the ICL administrator, Jane Thomas.

"After period two of Round 2 many teams found themselves in a position of struggling to minimise losses rather than maximising profits.

"Prices became fiercely competitive as teams struggled to maintain sales volume at the expense of profits and, in many games, this wasn't helped by a rapidly shrinking market demand for the product.

"Every week the *National Business Review* illustrates how tough conditions are for New Zealand companies, large and small, and the conditions set for BMG contestants have been pretty similar to those prevailing in the 'real' world," Thomas said.

Round 2 — Final Results

Game code	Company number	Team name	Profit in $000's Leading Team/Runner Up
BA	2	Freightways Data Centre Ltd, Penrose	7998
BA	3	Ciba Geigy NZ Ltd, Auckland	8281
BB	2	Paul Weatherburn & Assoc, Auckland	6927
BB	3	Fibremakers NZ Ltd, Auckland	6651
BC	3	National Chartered Accountant (OFM), Auck Team	5789
BC	2	Cobut Agencies Ltd, Auckland	4876
BD	3	NZ Fibre Glass, Auckland	5818
BD	1	St Peters College Team 1, Auckland	6325
BE	3	3M NZ Ltd, Auckland	4244
BE	1	Wix Corporation NZ Ltd, Auckland	3877
BF	4	Winstone Wallboards Ltd, Auckland	5384
BF	2	Chemby Marketing Ltd, Auckland	4188
BG	1	Rangipo Syndicate, Turangi	6451
BG	4	Unilever (NZ) Ltd, Hastings	4735
BH	1	MWO, Turangi	6431
BH	2	Community College Team	4301
BJ	1	Central Nth Is Timber Company	6204
BJ	4	BP (NZ) Ltd, OR Section, Wellington	5715
BK	5	Tasman Pulp & Paper Ltd (Team 3), Kawerau	7302
BK	1	Pukotahi Holdings, Putaruru	5195
BL	4	Todd Motors Ltd, Porirua	5372
BL	5	Ministry of Transport (Team 2), Wellington	5338
BM	2	J Y M, Wellington	8865
BM	1	National Chartered Accountant, Wellington Team	8528
BN	5	Environ Mechanical Services Ltd, Wellington	3968
BN	1	Dept Social Welfare Head Office, Wellington	3184
BP	4	Ministry of Transport (Team 1), Wellington	8141
BP	1	Govt Life Ins Office (Team 3), Wellington	6047
BO	3	NZ Railways (Team 1), Wellington	3308
BO	1	Govt Life Ins Office (Team 2), Wellington	2888
BR	3	AMP Acceptances (NZ) Ltd, Wellington	4554
BR	2	Dept Trade and Industry (Team 2), Wellington	4247
BS	4	Chem Industries (NZ) Ltd, Dunedin Team	9051
BS	2	Alliance Freezing Co (Southland) Ltd, Invercargill	7707
BT	4	A M Satterthwaite & Co Ltd, Christchurch	4880
BT	1	MWO Head Office (Team 2), Wellington	3677
BV	3	National Chartered Accountant (OFM), Dunedin Team	2823
BW	4	Canterbury Frozen Meat Co Ltd	2651
BW	1	Canterbury Savings Bank	4631
BW	3	Lawrence Anderson & Buddle, Christchurch	4078

The teams which will go on to the semi-final consists of four South Island teams, six from Wellington, four from the Central North Island and six from the Auckland area.

"We haven't done anything to engineer that result but we are pleased that we have a fairly representative cross-section of teams from right around the country. With a bit of luck the final may be contested between South Island, Wellington, Central North Island and Auckland teams."

Leading the profit stakes at the end of Round 2 were Chem Industries (NZ) Ltd from Dunedin with a profit of $9.051 million and a margin over the Alliance Freezing Company team of $1.344 million.

The largest winning margin in the round went to a Tasman Pulp and Paper team with a profit of $7.302 million and a margin of $2.107 million. The narrowest squeak for winning margins was Todd Motors Ltd' $33,000 win over a Ministry of Transport team.

In 10 of the games the winning margin was less than $500,000.

The third and semi-final round of the ICL BMG will commence with the first decision on October 10 and the last decision for the round on November 14. At that time the four teams to contest the national final will be known.

Germans name new consul

CAPTAIN Snushall, managing director of the German shipping company, Columbus Maritime Services Ltd, soon will be appointed West German Consul in Auckland.

Snushall will succeed shipping magnate Vince Kean, who died recently.

Kean was responsible for bringing the German shipping line to New Zealand. He and Snushall worked together for the line until they fell out over the question of the line joining the Conference.

Snushall took the top job with Columbus – a key conference member. Kean went his own non-conference way, first with Ace Lines, then the Trans-Capricorn Ocean Lines.

Kean's most recent [illegible] project was to bring the conventional bulk meat [illegible] Refrigerated Express Line [illegible] New Zealand.

Snushall, in the opposite camp from Kean, is [illegible] widely respected as a [illegible] man.

Law

Ocean Beach decision advanced women's work

by Jack Hodder

THE accelerating advance of women across the employment landscape seems likely to be a hallmark of the 1980s. If that be so, the Equal Opportunities Tribunal's first decision, released late last month, will be remembered as a significant milestone.

The decision, intituled *Human Rights Commission v Ocean Beach Freezing Co Ltd (J H Wallace QC, AAK Grant & E W Orr, EOT3/80; September 11 1980)*, might also mark the beginning of a better understanding of the Human Rights Commission Act 1977. At the very least, it should divert attention from the Human Rights Commission to the terms of the Act.

Aspects of the Act were discussed in this column earlier this year (*NBR* April 2) and it may be sufficient for present purposes to set out part of the text of section 15(1): *It shall be unlawful for any person who is an employer .. (a) To refuse or omit to employ any person on work of any description which is available and for which that person is qualified; or (b) To refuse or omit to offer or afford any person the same terms of employment, conditions of work, fringe benefits, and opportunities for training, promotion, and transfer as are made available for persons of the same or substantially similar qualifications ... by reason of the sex, marital status, or religious or ethical belief of that person.*

The tribunal's decision represents (subject to any appeal to the High Court) the last phase in the sexual integration of the work operations at the Ocean Beach freezing works.

Women were first employed at Ocean Beach in 1973, partly because of the difficulty of attracting a stable and permanent work force to that shed. But women have never been taken on to train as mutton slaughtermen (or "slaughterers" as the tribunal suggested they might be called) who enjoy shorter hours and greater income and prestige than labourers on the slaughterboard.

A Mrs Ross, who had worked at Ocean Beach for six seasons, put her name down for a place on the learners' mutton slaughtering chain prior to the 1978-79 season. Although men with less seniority were selected for that chain, she was not. The same thing had happened in previous years and Mrs Ross went to see her solicitor (having been told of the existence of the Human Rights Commission by the Labour Department). Correspondence with the company resulted in a complaint being laid on behalf of Mrs Ross (and, later, of two other women in similar positions) with the HRC.

The HRC investigated the situation (with the co-operation of the company) and formed the opinion that s15 had been breached.

The company disagreed and the HRC took civil proceedings on behalf of the women before the tribunal. A three day hearing was held at Invercargill in July and a 36-page decision issued by the tribunal in September.

The tribunal gave three remedies:

(1) A declaration that the company had committed a breach of s15(1) in denying the women the opportunity to train as slaughtermen.

(2) An order restraining the company from again denying women any place on a learners' chain.

(3) Damages totalling $2252.58 (for pecuniary loss, expenses, and injury to feelings) to two of the women (the third was overseas and did not give evidence). No award as to costs was made because the tribunal considered it was to some extent a test case.

The company's primary defence to the proceedings was that it did not have adequate sanitary, ablution and changing facilities for female slaughtermen; that it was not reasonably practicable to provide separate facilities and that it was thus entitled to the temporary exemption provided by s17 of the Act (which authorises preferential treatment based on lack of facilities for one sex until June 1 1982).

The defence failed. The tribunal was satisfied that female slaughtermen could have used existing facilities for female muttonboard labourers and that the company's policy of not mixing facilities for slaughtermen and labourers was irrelevant and/or flexible.

The company did not argue that the women were not capable of working on the learners' (or a tally) chain. Had it done so, it would have failed as the tribunal was satisfied to the contrary by evidence produced by the HRC. Nor did the company argue that its actions were inevitable because of the attitude of the sub-branch of the Meatworkers' Union. But that was very close to the truth of the matter.

The tribunal noted that the Ocean Beach sub-branch had had several discussions on the question of women's employment in the works and had remained strongly opposed to women being on the chain. It also recognised that the company had good reason to believe that the placing of women on the learners' chain would have provoked an industrial stoppage at a vital point in the season.

But that could not provide a defence for the company: "Were it otherwise, a union or any powerful group in the community could subvert the purposes of the Act".

Three other points were made by the tribunal in dealing with this aspect of the case.

First, the national executive of the union had supported the Working Women's Charter (which requires equal opportunity of entry into occupations regardless of sex) and, if the company had pursued the matter, there might have been agreement with the union.

Second, there would be a postponement of the problem if, as predicted, higher retention of tally slaughtermen means that no learners' chain will operate for the 1980-81 season.

And, third, the union's attitude was relevant in considering remedies (the damages awarded were lower than sought by the HRC, costs were not awarded against the company, and the injunction merely relates to the next learners' chain).

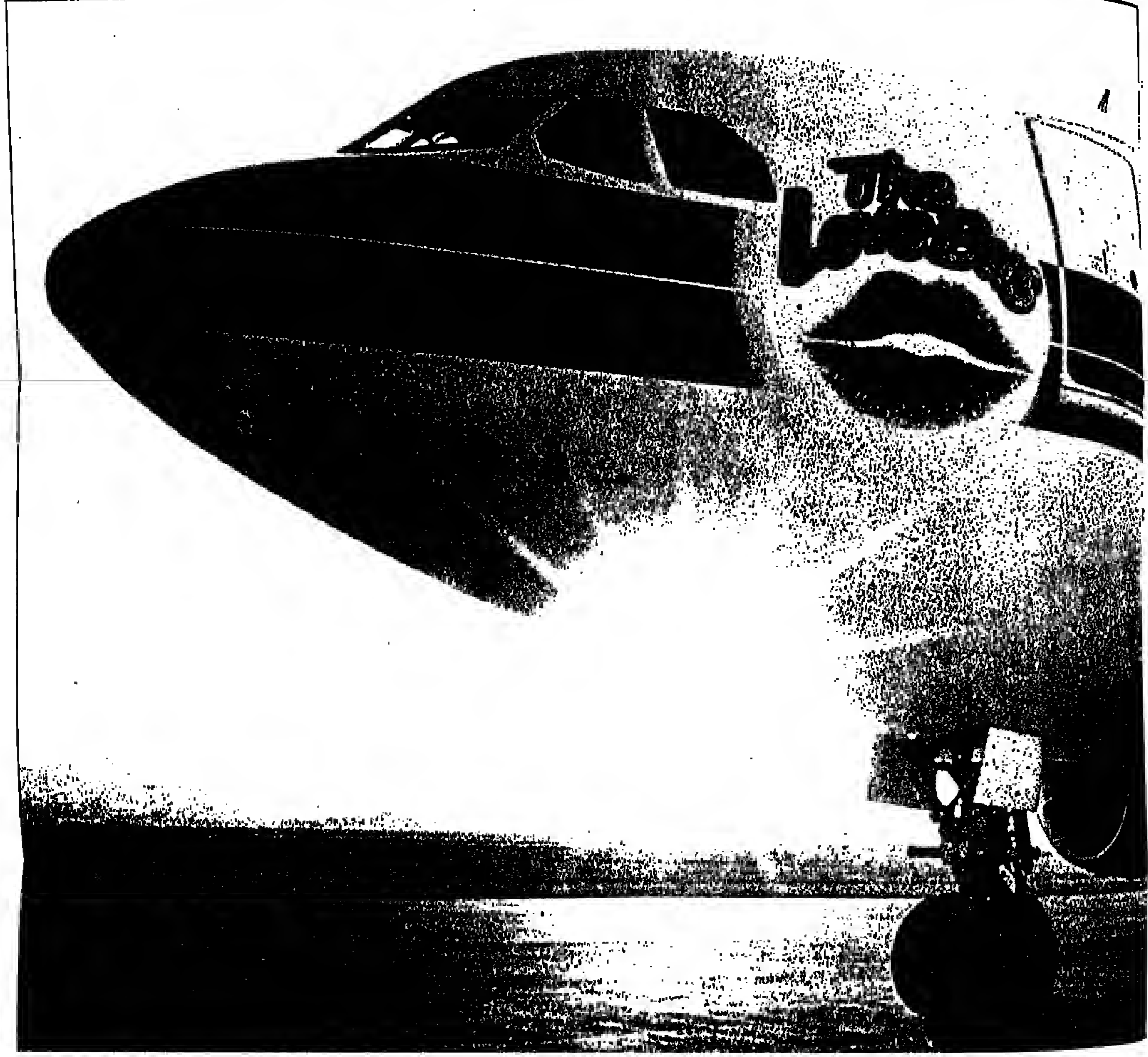
The limited injunction issued by the tribunal illustrates the fact that the Human Rights Commission Act does not, unlike certain overseas anti-discrimination laws, encourage employers and others to implement reverse-discrimination policies as a "crash" measure to overcome the effect of decades of prior discrimination. Thus, despite the Ocean Beach decision, it will be a long time before 50 per cent of the nation's (non-Muslim?) slaughtermen are women.

The tribunal's decision could conceivably have far reaching implications for the meat industry.

The decision refers in passing to the company's problems of absenteeism: 18 per cent among slaughtermen (which meant that last season the company could only run its six chains on tally for one week, despite having 385 slaughtermen on its books).

There is a school of thought in the industry which believes that, in general, women employees are less prone to absenteeism. If so, there are obvious economic benefits to follow from the hiring of women slaughtermen.

Similarly, there is a school of thought which believes that some of the meat industry's notorious industrial relations can be attributed to "macho" attitudes at the workface. (This writer, a tally slaughterman for eight seasons, subscribes to that school of thought). If so (and given the fact that the slaughtermen are usually the largest and most cohesive group in any works), the decision may ultimately lead to changes on those attitudes and those industrial relations.



Franchising

Alko Frei the latest venture by franchising group

by Warren Berryman

CITY by city, area by area, a coterie of Auckland-based franchise merchanta operating under various names appears to have sold New Zealand franchise rights several times over – each time with a different product.

If the product does not sell the coterie turns to a new product and a new company name, then advertises through the newspapers for a fresh batch of investors to buy exclusive distribution rights.

A growing number of investors have lost from $5000 to $15,000 each.

The amount of unsold stock gathering in franchise-holder's homes or garages presumably is growing too.

The coterie's latest product is Alko Frei, sold in sachets containing about 8 cents worth of fructose and sold for $1.25. It is being marketed as a hangover remedy, according to some publicity material from the company.

Franchises to market Alko Frei are being sold by Alko Frei NZ Ltd, whose directors are Dennis O'Flaherty and Ted Carthew. Consultant to the company is Allan Cowan.

O'Floherty and Carthew were directors of Helia Health Products Ltd, a vitamin pill-franchising operation which went into liquidation leaving franchise-holders with stocks of unsold and currently unpromoted stocks.

The joint liquidators of Helia Health products are Cowan and Auckland lawyer Roger Chambers.

O'Flaherty and Carthew are directors of Homesew Industries Ltd, a franchising operation selling kit-sets kids jeans. According to O'Fleherty the product did not do well.

Homesew Industries and Alko Frei are both $100 capital companies.

Cowan and Chambers were both involved in Christchurch-based Kindyland Holdings Ltd – Cowan as governing director and Chambers as company secretary, wirh both as shareholders.

Kindyland Holdings owned a shop in Christchurch called Julien Cosmetique which closed down in a welter of bad debts.

Julian Cosmetique was the office through which orher franchise and marketing schemes eminated. Among them were Protec Products, Parfum du Pacifique, Butterfly Cosmetic Club, Astro Scents, and Bowser Bar Services.

Helia Health Products, Homesew Industries, and Alko Frei are similar operations. The products are sold from stands left near the cash registers in business premises.

The franchise merchants advertise in daily newspapers. The investor pays the franchise merchants for selling rights in an area. The franchise merchants undertoke to promote the product.

The franchisee keeps the stands stocked.

Franchiser, franchisee and retail outlet all take a cut of the retail price.

Investors throughout the country bought franchises for Helia Health Products' vitamin pills.

The vitamins were to have been promoted nationwide with television ads.

A few ads were screened but some franchisees complained that the money spent on advertising was insufficient to move the stocks and make the franchise pay.

An elderly arthritic answered a Helia advertisement which promised a return of $15,000 a year for a $7000 investment in a franchise. He signed up with O'Flaherty for a $15,000 franchise covering the whole of Christchurch.

The franchisee was to restock stands placed in dairies. The vitamins retailed for $2.50 a phial, of which the shopkeeper retained 50 cents, the franchisee $1 and Helia $1.

The pills did not sell. The franchisee says that shopkeepers would not keep the stands on their counters and his dream of self-reliance through a part-time job evaporated.

He was left with a stock of vitamins and $15,000 out of pocket.

Helia Health Products went into voluntary liquidation. But the same directors had a new batch of franchises to sell in Homesew Industries pre-cut children's jeans.

O'Flaherty said Alko Frei would be sold in a similar manner to Helia Health Products. The franchise for the whole of Christchurch would cost $30,000.

Recalling the dearth of vitamin sales, O'Floherty said "they didn't sell too well, I'll grant you that".

He declined to tell *NBR* how many franchises were sold.

On Homesew's jeans, he said: "Well, you know what the rag trade is like. We are no exception. We're not geniuses."

Operating from the Julian Cosmetique shop in Christchurch, Cowan launched a number of sales ventures.

One investor bought into a perfume-selling deal. He now has stocks of perfume base he says he can't sell, and he claims to have lost $15,000 on the deal.

Last February, advertisements appeared in Auckland and Christchurch newspapers headed: "Turn a morning each week into cash. Suit man or woman 18-60 years."

The ad said: "We can put you into a small no-selling part-time business ... on a $1000 deposit we will completely train you, pay you $60 a week for the six months, and without anything more to pay, hand the business completely over to you. You will own it and reap the lucrative rewards for your effort during training".

Allan Cowan, this time of Kindyland Holdings Ltd, was involved in the venture.

NBR knows of at least six people who responded to the advertisement and paid the $1000. All claim they had been told by Cowan that they would be handling shampoos and similar products in the Protec range. They claim they were shown unlabelled bottles of shampoo.

A university student paid his $1000 after Cowan had undertaken a two-day check on him "to make sure he (the student) was honest".

After parting with his $1000, the student tried to locate Cowan. Like the others in Christchurch, he had not heard from him subsequently, nor received training, or been given his money back.

Months later, the student accidently bumped into Cowan who said he should come to his office in Northcote the next day. The student found the address was that of Helia Health Products and Homesew Industries.

Cowan did not keep the appointment, and the student saw Carthew instead.

Carthew offered to rip up the $1000 contract with Cowan and transfer the money to an Alko Frei agreement. The student declined.

He says he is still waiting for his money back.

The Christchurch and Auckland fraud squads are investigating.

The student's cheque was made out to Kindyland Holdings Ltd. The registered address of this company is in question at the Christchurch Companies Office. One address given is a residential address. Another is that of the now closed Julien Cosmetique.

Cowan told *NBR*: "To the best of my knowledge this was a cancellation thing. It was cancelled early late in the programme, owing to the rail-ays strike between Wellington and Christchurch you may remember in the early part of this year."

Cowan appeared interested in knowing the identities of the people who were complaining about him.

He suggested we contact the "ringleader" of the complainants, and give him Cowan's phone number, so they could reach a "compromise".

Cowan said he had no files and he did not know whose $1000 he held for the non-existent courses, so he couldn't refund the money.

He said the proposed training scheme had been a "colossal flop".

United States

Revitalisation plan axes tax revenue

PRESIDENT Carter has proposed a major economic stimulus package for industry that he promises will lead to a new era of non-inflationary economic growth in the United States.

The programme includes about $22,000 million in tax cuts for businesses in 1981 and about $5000 million in spending for a variety of programmes, including retraining unemployed workers and helping localities and industries recover from the recession.

"The programme is neither a traditional stimulus programme nor a general tax cut proposal," according to a fact sheet released by the White House.

"It is a carefully targeted series of initiatives designed both to reduce unemployment in the short-term by accelerating the recovery from the recession and to address the long-term needs of the economy."

High administration officials said that by dealing with the long-term issues, the administration is beginning to attack the root causes of economic problems in the United States.

One official called the new programme "the beginning of a full decade of actions aimed at revitalising our economy."

The long-term measures include increased tax incentives for investment, increased Government support for basic research and development, and measures to help workers and lagging areas adjust to changes in the United States and world economies.

While considerable progress has been achieved in bringing down inflation in recent months – from an 18 per cent-plus annual rate to the most recent figure of 12.6 per cent – officials fear that another round of large oil price increases could send consumer prices skyrocketing again.

In addition with unemployment approaching a double-digit rate and no sign of improvement in industrial productivity, economic policy-makers are concerned about what's ahead for the United States economy.

Carter officials claim the new programme will add new stimulus to the economy and promote productivity, this ultimately serving to reduce future price increases.

The administration estimates the economic revitalisation programme will create almost 500,000 jobs by the end of 1981 and a total of 1 million jobs by the end of 1982. Over the same period, it should increase real economic growth by 2 per cent and boost private investment by 10 or 11 per cent over what would have occurred in absence of the programme, an official said.

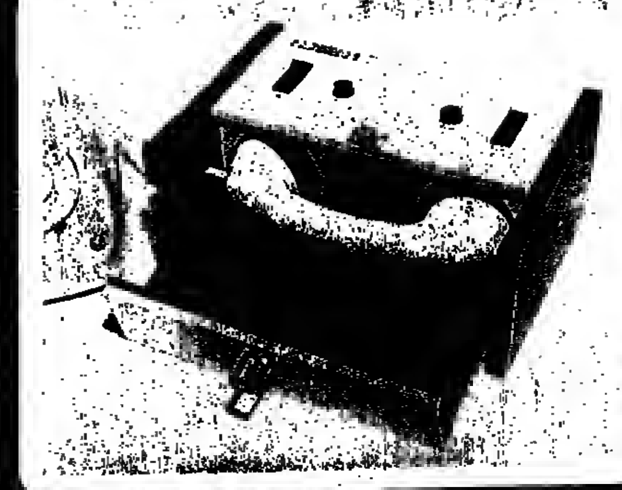
The biggest single investment-stimulating component of the programme is a "liberalised depreciation" proposal that would allow businesses to deduct the cost of new invesment from their taxable income at a pace 40 per cent faster than allowed under current law. This accelerated depreciation would apply to all types of plant and equipment.

Another element of the programme is a 10 per cent tax credit that American industries get for investment in new plants and equipment. New companies, with no tax liability or industries that are suffering from temporary losses, receive no benefit because the investment incentive can be applied only to taxes owed.

The administration proposed such industries receive a refund for 30 per cent of this credit. Officials say this measure will have important repercussions on the ailing auto and steel industries.

Other investment incentives include:

- A tax credit of almost $13,000 million to offset business's share of the increase in social security taxes scheduled to go into effect on January 1 1981.
- An increase of $600 million in Federal support for scientific research and technological development.



Take - it - or - leave - it offer accepted to bail out Forum Line that suffers continuing losses

by Sue Green

THE Pacific Forum Line has been seen by potentially sound commercial venture and by others as a political tool and a businessman's nightmare.

Set up on June 16 1977 by nations of the South Pacific Forum to give them the shipping service they needed to develop their trade, the line has lost money ever since.

New Zealand and Australia have just agreed to bail out PFL again.

To the end of last year it had received more than $4 million from its shareholders to cover losses. Now they have been told it needs another $9 million to maintain its operations through the rest of this year and 1981.

At a special meeting of the Pacific heads of Government in New Delhi last month, New Zealand agreed to put up $4.5 million.

But in a move that caused anger and is likely to have future repercussions for the line, Australian Prime Minister Malcolm Fraser announced that Australia would provide the other $4.5 million if it came out of its South Pacific aid budget (about $120 million for 1980-83). That meant there would be less to go round other projects in the region.

The Pacific leaders agreed to Fraser's "take it or leave it" offer but Rob Muldoon predicted future bitterness.

He denied a personality clash between himself and Fraser, although he accused Fraser of being badly briefed, lacking perception of what sea transport meant to the Pacific Islands, and of being a man who found it difficult to get an idea out of his head.

Fraser made some harsh criticisms of the line. He said it was not making efficient use of the money it had available and it would be better to leave island shipping to commercial interests – wind up the line, in effect.

New Zealand's PFL board representative Ray Shea, of the Shipping Corporation, said: "Considerations are still to be faced by the governments, but there was considerable general support for the line and its objectives. It will not fold as far as I can see."

Even Captain Gordon Dewsnapp, the line's first general manager, who resigned this year saying the political structure made it almost impossible to form any rational policy, did not believe liquidation was the answer.

There would be pressure from vested interests to wind it up, he said. Other companies were waiting in the wings to take over the services and Pacific Governments have been known to throw away long-term good for short-term financial expedient.

But despite its problems, the line provides a real service, he said. It carries over 50 per cent of all the cargo that moves in the region. "Remove it overnight and you would cause real and genuine hardship in areas you should not," Dewsnapp said.

Competitors could not fill the void immediately, and those who did move in, would no doubt immediately put up the freight rates. There is general agreement that the line has held down rates in the region.

The line is part of the fabric of Pacific society. It trains Pacific Islanders and is minimising the use of expatriates. Besides, it would be too expensive to wind up, Dewsnapp said.

The line has been technically bankrupt since the day it started. It has always incurred debts well in advance of its ability to pay them and much of its help from shareholders has been in the form of guaranteed overdraft, rather than hard cash.

It was established with a fully paid up capital of $WS80,000 – a $WS10,000 share subscription by each member country – New Zealand, Fiji, Western Samoa, Nauru, Tonga, the Cook Islands, Papua New Guinea and Kiribati. When the Solomons and Tuvalu joined they added their $10,000 each.

But with losses of more than $1 million after only a few months trading the line was recapitalised up to $1 million. To maintain equal political control it was agreed the initial shares would be A shares – voting shares. All contributions above the $10,000 would be non-voting B shares.

Dewsnapp was highly critical of this small capital base. It made the task of setting up and running the company as a commercial venture almost impossible, he said.

During his last week of work for the company, in Apia in late June, he said: "I do know beyond a shadow of a doubt that the type of animal PFL was and is just can't go on. The politicians did not realise, and I'm sure they still don't realise, what an impossible handicap it is to give to a company that it must operate on somebody else's ships and to start off without any real working capital."

His complaints seem to have hit home. Shea said one of the things the Pacific Forum Line council has since looked at was providing the company with a better capital base.

There would be another obstacle to winding up the line. It could cause industrial chaos in the region.

In 1973, when the idea of such a line was being mooted, a meeting was held in Waitangi to forestall possible industrial problems. There agreement was reached over manning the line's ships, with a role in the trade guaranteed for New Zealand seamen.

"We recognised the rights of Pacific Island seafarers to participate in their own trade, but that would not mean New Zealand seafarers relinquishing their rights," said Seamen's Union president Dave Morgan, looking back on that meeting.

Flowing on from the meeting agreement was reached on wages for the seamen, with New Zealand seamen who are on the ship provided by their Government, being paid local rates.

Seamen on the ships leased by the line from the Western Samoan and Tongan Governments were to be paid at slightly lower rates under an agreement between the South Pacific Bureau for Economic Co-operation and the International Transport Workers' Federation (ITF).

There have been no efforts for parity and there would be a lot of resistance to that, Morgan said.

But it seems the ITF proposals were not accepted and earlier this year in Australia and New Zealand the two ships, the Fua Kavenga and the Forum Samoa, were allegedly threatened with black bans.

Talks were held in Sydney at which the two Governments told the ITF they could not afford to pay the rates. According to the Apia newspaper *The Observer* they have been given three years to bring the wages up to par.

The paper quoted informed sources as saying the line pays $1000 a day for the hire of the Forum Samoa, its captain is paid about $67,000 a year and its highest paid seaman about $2500 a year.

If the line folded what would happen to the manning agreement?

Before the recent council meeting, the Seamen's Union was asked for its reaction to the possibility.

Morgan's reaction was uncompromising: "If it falls, as far as we are concerned it's back to pre-1973 days and we would be exercising our rights to take part in that trade... we have been in the trade for quite some time and we intend to stay in it," he said.

"It (PFL) offers a rational system of doing it, but if it's catch as catch can with everybody leaping into the market we would have to make sure our rights are protected. That would probably mean some sort of industrial upheaval," he said.

The union was not completely happy with labour rates in the region. If it became "catch as catch can" it would be addressing itself to cheap labour competition, Morgan said. At present it was monitoring the smaller operators in the region, such as the Cook Islands-based Silk and Boyd.

The winding up solution seems to have been rejected at least for the time being. But even so, industrial problems may be looming. Morgan said: "If it keeps going we would like to see New Zealand participation stepped up. It is a question of waiting for things to stabilise."

The union is talking to the Shipping Corporation, the Forum New Zealand's operators, about wages and conditions. Rescheduling could have an effect on that, Morgan said.

Rescheduling seems inevitable. The council has apparently decided to try what it hopes will be a more cost-efficient use of the three ships as part of the line's effort to trade its way to smoother waters.

Shea explained that previously there were three services – one between Auckland and the South Pacific, with the other two ships in a circular route incorporating Australia, the South Pacific, New Zealand, Papua New Guinea and back to New Zealand.

Now the council has decided to maintain the Auckland-South Pacific service and include a separate service to Australia using the Fua Kavenga.

Its sister ship, the Forum Samoa (both have 300 TEU container capacity and have roro capabilities) will run an express service between Auckland, Fiji, Samoa and Tonga.

The Forum New Zealand, a strider class container vessel on charter from the New Zealand Government through the Shipping Corporation, is to be put on the Papua New Guinea run with a Fiji stop. This will give operating cost benefits and greater capacity on the run, Shea said.

But both the ship and that run have been bones of contention in PFL's past.

Dewsnapp slated the ship: the first New Zealand ship, the Tua Moana, was unsuitable and there was pressure to get rid of it. Nothing suitable was available so New Zealand got what it could – the Forum New Zealand, built for the mid-east, far-east trade, with horrendous restraints and expensive on fuel.

"People give us what they want to give, not what we really need," he said.

"It is not suited to any of the Pacific trades and therefore cannot help but lose large sums of money on any route that it is operating on."

Morgan said the ship was bought to service the Papua New Guinea trade, a new and developing one and no-one could sit down and say exactly what was needed. But it is as compatible to the trade as the Forum Samoa, he said.

But Shea said it was a good vessel. It was not bought with the intention of running it to PNG. It was originally anticipated that it would run on that route but there was a change, subject to experience.

That could have been successful but there have been operating problems so there will be a further change. The line has to provide a service for the region overall – there has to be a degree of flexibility, he said.

One of the operating problems was that the Samoans wanted a 14-day service which was difficult to achieve, Shea said. They had this in the days of the Union Steamship Company ship, Marama, before the company withdrew from the region.

But if the line was run as a commercial operation, "these people," said Dewsnapp, motioning out of his office window toward the harbour, "would never see a PFL ship in Apia harbour".

But the reality is that the line is not a commercial venture. It never has been and it is doubtful it it ever will be.

Opinions differ as to whether it could ever break even. But regardless of that, it was failure by the politicians to admit and realistically deal with the political nature of the line that drove him away, Dewsnapp said.

The line was set up as a political venture, he said, because it was not sound economically. "Politicians then imposed the constraints that not only must it do the things they want, but it must also be profitable and the two do not go together."

It has lost money because it must undertake non-commercially viable services that politicians wanted, he said.

If it was a commercial venture it would scrap routes that did not make money and pick only the most lucrative (and if Dewsnapp had his way, it would scrap the Forum New Zealand as well).

"But if we did that we would not be the political animal that we were set up to be, just one more commercial company whose shareholders were motivated by profit."

Shea agreed it was difficult to reconcile providing a quality regional service and a self-sustaining venture: "My personal opinion is that the line can never be considered a commercial one or judged on commercial criteria. It has to be judged on a basket of things, quality of service together with the financial aspects."

It could break even in due course, but not in the immediate future, he said.

Dewsnapp, who has moved to Tauranga to set up a shipping company for Fletchers, said political interference disillusioned him.

"Probably the reason for not wanting to stay is in the degree to which the management of this company has been subjected to political interference, not necessarily direct, very often indirect, even insidious," he said.

He expected, and was led to believe, he would do the job of general manager and chief executive and the political shareholders would be kept off his back. "But I was probably naive to expect that and in retrospect I was very naive."

"... I am not trying to carry out any kind of vendetta against the politicians. It is something which has happened which I am sure they did not foresee any more than I did – regional co-operation versus individual country necessity. They agree with regional co-operation in open forum, but when the chips are down, charity begins at home."

He is not condemning the politicians. They are to be congratulated for a far-sighted idea. The key to development is transport and without it they are dead, he said.

So what went wrong?

"I, as first chief executive, was hopelessly over-optimistic in terms of what I thought I could achieve and what the real costs were going to be."

It is a unique situation to try to set up a shipping company without having anything to do it with – no ships or equipment. The line has no real control, the people who work on the ships belong to somebody else, maintenance and management are vested in somebody else, he said.

It is about as cost-efficient as hiring a car from Hertz for five years.

The company employs agents and has to monitor them. It knows some owe it money but cannot prove it.

"The biggest single difficulty is having effective cost control," Dewsnapp said. "... Lack of effective control over the operations that we are carrying out is one reason we lost so much money."

The only way to have effective cost control is to have your accounts on a computer, he said. The board agreed and the accounts side of the operation was moved from Apia to Wellington in March.

Systems analysis is underway and he said before the end of the year there will be management reporting and a sophisticated accounting and credit control system.

But there is strong pressure from the Western Samoa Government to bring the operation back to Apia. In a couple of years that may be possible, but if it happens now PFL is finished, Dewsnapp said.

It seems he is not alone in that view. Shea said it was moved to give it needed resources, banking and consultancy services. There is pressure to bring it back immediately but the system should be fully implemented and tested first, he said.

But if the head office cannot get what it needs in Apia, why have it there?

For sound political reasons, Dewsnapp said. It helps the line retain its Pacific Islands identity. But it is political alone, he says. Though the Western Samoa Government has been as helpful as it could with tax holidays and the best of its facilities, the communications are poor, there is a lack of trained staff and cost-control facilities: "Nobody in his right mind would set up an international shipping company in Apia."

What the politicians should do is stop beating around the political bushes and recognise the line as an aid project, even if that means less for roads, agriculture and other projects, he said.

"If it costs $4 million a year to operate, that is the cheapest aid package that could ever be devised to give them a modern shipping company."

It seems that Malcolm Fraser agrees. Despite Muldoon's slating of that approach, and his own commitment to it, it could be just a matter of time before pressure at home forces a rethink of New Zealand's attitude and a following of the Australian idea so it takes its places with other projects.

Aviation

Visa policy grounds private pilot pupils

by Lindsey Dawson

GOVERNMENT refusal to grant student visas to young overseas pilots is blocking local flying schools from taking on pupils from other countries.

New Zealand is one of the few western countries which provides private tuition for would-be commercial pilots. The New Zealand College of Aviation at Ardmore receives one or two inquiries a week from people who are prepared to spend $10-15,000 on obtaining New Zealand licences.

"We are listed in international publications as having training facilities, and we send off brochures and information to applicants. But every time they apply for visas they get knocked back," chief flying instructor Ross Dawson said.

He has fought a three-year battle to get the Government to change its policy on allowing private students in from overseas. The Government's attitude is that it does not want to allow foreigners to learn to fly here because it has been told there is a world over-supply of commercial pilots.

Dawson said that the school had trained a number of pilots from Pacific and Asian countries some years ago. After local concern about overstayers surfaced in 1977 the inflow of pupils ceased. "I've been corresponding ever since with the Minister of Immigration and his department. I was told that a review of the policy would take place in August last year but nothing has happened.

"I find it quite incredible that the Government should use the excuse of an over-supply of pilots to prevent private pupils using their own money to get tuition in this country. It's as silly as saying that because the EEC has o butter surplus we should stop exporting butter. We can't seem to get through that we're not talking about providing Government aid – we're talking about private enterprise."

Some countries have a pilot surplus, but the industry is cyclical and the situation may well change, Dawaon said. "There is, anyway, a grave shortage in some parts of the world." His school has been recently approached by Zambion and Fijian companies seeking flying tuition for employees, but nothing came of the approaches because visas were not issued.

New Zealand had a reputation as a very air-minded country, and New Zealand licences were accepted around the world, said Dawson. Opportunities for individuals to get commercial licences were diminishing as most countries ran big government-funded schools for their own airline employees.

Auaala Malcolm ... training rastricted to aponsored people

Managing director of Globetrotter Tours in Auckland, Stephen Greenfield, is also pushing for a change of Government attitude. A former flyer, he says he is saddened and frustrated at the lack of Government interest in encouraging inbound tourism and supporting New Zealand expertise.

A New Zealand embassy staffer in Japan informed him of Japanese interest in learning to fly here when he was on an Asian business trip.

Investigating the potential after his return home he came up against the immigration brick wall, despite support from the Transport Minister Colin McLachlan. He wrote to Immigration Minister Aussie Malcolm and was informed that entry for pilot training is restricted to people sponsored by their home governments. This implies that there are long-term employment opportunities available for them afterwards.

Malcom suggested Greenfield make submission to the interdepartmental committee on private overseas student policy "if you consider that there are some special reasons why New Zealand should accept pilot trainees from Japan or indeed any other country."

Greenfield has done so, and to date has received no reply.

"I could understand the policy if it was a question of using Government facilities but we are talking about a private training school and private students using their own funds. I can't see that the world supply of pilots has anything to do with it," he said.

Incoming students need to get a student visa to study for a commercial pilots licence, because a tourist visa, valid for only 30 days, does not allow enough time.

It takes about three months to obtain a private licence, and nine months or more for a commercial. Some of the Jopanese who are interested want only a private licence, and would like to learn here because of high aviation standards, reasonable weather and lighter traffic.

Dawson can't estimate how much overseas pilot training would mean financially to the college, which is the advanced training wing of the Auckland Aero Club. "We're not set up to cope with big numbers, but even if only 10 pilots a year came into the country for commercial training it would mean $150,000 in overseas funds."

Letters

Marketing kiwifruit

IT is hard to understand what motivated the attack io your September 8 issue on the highly successful Kiwifruit Marketing Licensing Authority (KMLA). Anyone reading your story would think that the KMLA was some type of sinister dictatorial secret society. In reality the KMLA is a body that wos set up by the Government at the growers' request and as such follows the same procedures in hearing applications as do similar organisations.

Mr Berryman lists some of the criteria considered by the authority when hearing licensing applications yet neglects to mention the vital role played by the considerable knowledge and experience of the authority members in making a decision.

The article holds out as further evidence of the conspiratorial nature of the KMLA, the presence of two exporters on the authority. What Mr Berryman neglects to point out is that the Government decided on the composition of the board after exhaustive discussions with the growers who asked that exporters be represented. A dispassionate observer might in fact praise the industry for its farsightedness in having exporters, growers and Government sitting down together each month to sort out all sectors, problems and to develop a strong and unified opproach to the industry future.

The article states that the KMLA's decisions are not the sort one expects under our judicial system. The KMLA believes that judicial decisions should be left to the law courts and it is surprising if the KMLA is so unjust it has not been brought before this honourable body.

Mr Berryman says 22 companies applied for licences and all were turned down. If this statement was correct, then no kiwifruit would have been exported from New Zealand this year. Obviously, this was not the case. In fact, nine of the 22 applicants were successful.

The KMLA is no more secretive, undemocratic or unjust than any other similar body. The two ways that the KMLA atand out from the rest is that it is a unique experiment into atructured free enterprise. Its second outstanding feature is that the KMLA is very effective in briaging in overseas dollars.

The Citrus and Sub-Tropical Conference passed a unanimous vote of confidence io the KMLA in recognition of the success of the kiwifruit industry which has led to massive export potential in all areas of horticulture.

It would be hoped that these achievements would lead to stories of praise, not attempts to discredit the integrity of kiwifruit grower repreaentatives.

Allon Goldin
Asslataot Secretary (Information)
NZ Klwifrult Marketlng Lleenslog Authority

Putting stamp on PO policy

NATIONAL Business Review of September 8 carried a story captioned "PO's way of stamping out efficiency".

That your columnist might be concerned about the coming increase in postage rates is understandable, but that he should be so uninformed in his criticism is not.

Postal charges for bulk mail and registered publications have not all increased by 100 per cent as he implies, nor will all businesspeople start paying double postal charges in January.

The facts of the matter are that:

- Bulk mail charges will go up by about 40 per cent on average from 1 October.
- Most other inland rates will go up by about 40 per cent from 1 October.
- The rates for registered publications are exceptions and will go up by 33⅓ per cent, 66⅔ per cent or 100 per cent (depending on weight) from January 1 1981. The higher increases are caused by a restructuring of this category to provide separate rates for publications in standard letter format and for those weighing up to 100 grams (the previous approach of having a single rate for all publications weighing up to 250 grams was claimed by publishers of the many smaller magazinea, newspapers etc, to be unfair and strong demands were made for the changes now being introduced. In making the transition from one structure to another some anomalies were unavoidable hence the differing levels of increases.)
- Despite the increase from January 1 1981, however, the rates for registered publications still reflect the favourable treatment publications have traditionally received, they will get a discount of 33⅓ per cent on normal rates for a minimum posting of 20 pre-aorted copica. For a comparable degree of pre-sorting, bulk mailers receive a discount of 15 per cent and must post 3000 items to qualify for it.
- The "business people" who use the registered publications category are publishers and they are a minority – the majority of "business people" use the other postal categories.
- The "pair of Post Office liaison officers" said by your columnist to have been visiting Auckland businesspeople about the new rates were actually a senior headquarters man and a local officer. Many big users of the postal service have raised questions with headquarters about the new charges and about service changes, in some cases customers have sent their representatives from Auckland and even from Sydney to Wellington. As a matter of courtesy to these customers, the Post Office responded by having one of the officers from headquarters with whom they normally deal, visit them. He took a local officer with him so that any local maners could be effectively co-ordinated.
- It is correct that there will now be four customer relations officers in Auckland instead of two, but this is a positive response to the increasingly diverse and complex needs of big users of the postal service. And, the two new positions will not "swell the ranks of civil servitude" to quote your correspondent – they have beeo matched by staff reductions elsewhere. In any case, surely your correspondent does not suggest there is something wrong in the Post Office helping customers to get the best out of the service.
- Although the Post Office made a profit of $70 million in 1979/80, the postal service lost about $20 million. The profit will not be used for "proliferating bureaucrat numbers" as your columnist puts it. In fact, over $69 million of the profit was ploughed back into capital development during the year and if the postal loss of $20 million had not needed to be made good by o cross-subsidy from the telecommunications side of the business, a further $20 million would have been available for telecommunications development.

F C W Wllliams
Dlrector of Postal Services
New Zealand Post Office

Not biggest by far. . .

I WAS intrigued to note in your *Admark* column of September 15 that the Auckland public relations consultancy, Allen Fenwick Limited, is describing itself as New Zealand's biggest PR service.

I note that the company has 12 staff and servioes 40 clients. You will be interested, no doubt, to compare this agency with Consultus New Zealand Limited which, after only six months in business, has a staff of eight and a clientele of about 20.

The Allen Fenwick company hos, as does Consultus, a long way to go however before it can claim to be the biggest. That honour is surely shared more or less equally by David Brett Limited, Network Communications and an Australian multi-national which has operated in New Zealand over the last 12 years. Each of these three companies has substantially more than 12 staff and, I suspect, an average gross income at least 50 per cent higher than that of Allen Fenwick.

Finally, may I congratulate Messrs Allen and Fenwick for securing work from the Tasman Pulp and Paper Company.

Robin Clulee
Managing Director
Conauitua NZ Ltd

Contracting

Construction pricing fails to reflect cost rises

TONY Mills, elected recently to head the Contractors' Federation for the next two years, can see troubles ahead for his industry as the country goes into a new development cycle.

But they won't be the problems of the last four years.

In that time contractors have been ravaged by reduced capital investment in both the public and private sectors. Many substantial companies have been forced to close down or drastically retrench their operations, and pricing has failed to reflect massive cost increases that have raced far ahead of inflation in other areas of the economy.

One of the industry's biggest problems, Mills says, will be retaining the confidence of its clients, particularly government departments and local authorities, when prices rise sharply.

The problem is simple. Competition in one of the only completely unregulated parts of the economy has led to contractors chopping first their profit margins, then other factors in their pricing.

But while that has been going on, costs have continued to soar. The industry's CPI, the Ministry of Works and Development' construction cost index, climbed 30 per cent in the year to March 31 1980. The plant index rose 45 per cent, reflecting fuel price hikes and continuing escalation in the price of capital equipment and spare parts.

In the meantime, the average contract rate of earthmoving has remained, until very recently, below prices charged in the mid-1970s and close to 1970 levels. A bust-up in the road sealing market in Canterbury last season, caused by the arrival of a new company, led to prices falling to 1960s levels.

Contractors, Mills said, have been able to offer those prices because much of th eindustry's plant is now more than five years old and has compamtively few outstanding finance commitments. Margin trimming has involved forgoing a return on the investment in that plant and any real profit on a contract.

"What is going to happen is that when contractors are forced to replace their plant there will be many who cannot afford to do so.

"And those who can finance the investment — $300,000 doesn't buy a single large bulldozer or motorscraper any more — will have to increase their prices by up to 100 per cent just because of the increased finance charges they will be paying."

In a short address at the opening of the Contractors' Federation conference, Mills said that the industry has already faced its restructuring and must now look at a potential boom in construction, with millions of dollars to spend in the next decade.

"This potentiol is going to place heavy demands on the industry.

"Do we have the skilled labour? Do we have the confidence necessary for an unprecedented level of capital expenditure?

"Are our clients prepared for the vastly increased price levels that will be required to replace equipment, and which will come with a saner and more realistic level of competition?"

When he is not working for the Contractors' Federation, Mills is managing director of the Rotorua-based Mills Group of companies.

Mills Construction Ltd began life shortly after World War II when Allen Mills, now prominent in Bay of Plenty local body circles, went into business as an agricultural contractor with the opening up of farm land on the Coromandel Peninsula.

It has grown with the Bay of Plenty region, firstly as roads have been improved, and more recently as the massive Kaingaroa Forest came into full production with the Tasman complex at Kawerau.

On November 1 this year, Mills equipment leaves that forest for the first time in 23 years after having been beaten in the race for the Kaiangaroa Logging Company's roading contract.

While being disappointed at losing the job, Mills is certainly not bitter. "That's contracting. You have to take these defeats positively, and go out and tender the next job that comes along. It happens to every one in this game sooner or later."

The company has moved away from its former concentration on earthmoving, and now has the ability to handle a wide variety of civil construction work. Local authority power schemes in the central North Island are providing much of its present workload, and the company has tendered for overseas work in joint ventures.

Tony Mills . . .look at potential boom.

Mills Construction, which Tony Mills joined 15 years ago after graduating with a civil engineering degree and working for the Ministry of Works on the Turangi town development, is typical of the privately-owned, medium-sized construction businesses that once formed the backbone of the heavy consrruction industry.

It has had to retrench a little in the last four years, but its diversified nature and its position in one of the country's growth areas has protected it from the worst of the recession that has flattened so many similar outfits.

The Mills Group also includes engineers Mills Tui Trailers Ltd, which has built up many of the country's fire appliances while on the way to establishing a reputation for the construction of specialist vehicles.

Meeting the challenges of the future is going to demand that contractors present a united front so that the Contractors' Federation can successfully look after the interests of its members.

Inside the organisation, he is looking for more motivation and involvement of federation members in its lobbying and other activities.

"Naturally enough, morale is not high at the moment but like at no time in the past we have to get people motivated and excited about the prospects of the future. Those who have survived the recession should be casting around for new opportunities that are so close now."

"It concerns me that people are drawing into themselves and are prepared to do less and less at a time when we really have to get them to do more and more," he said.

"New Zealand must have a healthy and vital construction force.

"But our clients are unfortunately going to have to be aware of the fact that it will have to be paid for, and the industry cannot continue to act as the only section of the economy putting an effective brake on inflation.

"It won't be long before contractors begin asking for some of the money that they have saved the country in the last five years," Mills said.

Putting perspective into personality testing

THE use made of psychological tests has been among the outstanding successes of the application of the behavioural sciences to business and organisation theory. But Professor John Adcock, a senior consultant with Group Management Services Ltd sounds a cautionary note.

THERE has been a growing tendency over the past decade for organisations assessing their people regularly to use evaluation packages. These generally include a number of different methodologies which attempt to provide answers about personnel — and prospective employees — considered important by the organisation.

Among them are the structured interviews, life history assessments, psychological testing, assessment centres, peer ratings and performance evaluations.

Although some have come and gone with time and popularity, their real benefit has been in their objectivity and fairness.

There is ample evidence that human intuition is a poor basis for vocational selection and that to put the right person into the right job requires a careful assessment of aptitudes, abilities, interests and personality.

Psychological tests provide the only basis for criteria whose reliability can be objectively assessed to be applied to specific selection purposes with a known degree of validity. Subjective evaluation is dangerously misleading.

New Zealand, however, has always been at a grave disadvantage in using psychological tests. Like most sophisticated instruments, they had to be imported and were not always suitable to our needs.

Devising special tests for our small population was hardly worthwhile, except to measure intelligence. Educational demand motivated some effort in this case, but the adaption of overseas tests was attempted rather than the designing of new ones.

Much later, interest was aroused in other tests and with the introduction of psychology into the commercial world attempts to assess personality became popular. Again, leading overseas tests were the natural resort and little attempt was made to assess their suitability to our needs.

The production and validation of a psychological test requires considerable work.

It must be tried out on the population for which it is designed and must be revised and improved until it does what is required of it.

The necessary work is warranted only if the test is to be used extensively, although the availability of sophisticated computer techniques has helped greatly. Research which would have required months of statistical analysis can now be done in a matter of days.

Several overseas tests are in use and some data are available to indicate the sort of results achieved here. Very little attempt has been made to assess the relevance and reliability of the tests under local conditions.

Usually the test is taken for granted and only the relation of the individual's score to others is considered.

This is not good enough. We need to be sure of what we are measuring and in the case of personality it is rather a complex matter.

With my colleagues, I have carried out research over several years to assess the validity of the 16 Personality Factor (16PF) test — probably the most widely used test in the commercial field here.

We were concerned to find if the test does measure in our population the 16 factors described by the test promoters.

Our first efforts, using university students as subjects, were hindered by the lack of capacity in the available computers to carry out a factor-analysis of the number of variables involved in the test. It was clear, that while some of the 16PF factors did appear, some did not and others were very doubtful.

Later we were able to use a much larger sample from the general population. The analyses of these data indicated that our subjects were not providing confirmation of the 16PF factor scheme, although again some factors were tolerably close.

To meet possible — and some actual — criticism about the statistical tools used in this programme, I devised a simple procedure. (The technical details can be found in a paper published by N. Adcock, in *NZ Psychologist*, 1974, Vol VI, No 1 but — briefly — a discrimination index could be calculated separately for each of the 16-factors purported to be measured by the test).

The results were highly informative. Five factors failed to achieve a chance level of discrimination. Therefore they were not merely failing to provide useful information, but were actually misleading.

The results made it obvious that rule-of-thumb application of the test by people unaware of its weaknesses would lead to disastrous results. Important decisions in selecting staff could be biased by unreliable data, but with a high feeling of confidence because of the "scientific basis" of the data.

In a paper, read to the IAAP in Munich last year, we analysed the causes of such test weaknesses and demonstrated that test items which are valid at one time in a particular country may take on new meanings in another country or at a later time and so lose their validity. To maintain validity they must be supported by current research in the country concerned.

The test construction must be based on data obtained under the same conditions as that in the practical use of the test. To expect that job applicants will answer personality questions in the same way as a group of university students, with only an academic interest in the outcome, or even a random selection of the population who are simply being paid for their time is naive.

The test construction sample must be answering the test items under actual selection conditions so they have the built-in motivation to answer the way they deem most expedient. The inclusion of a "lie scale" — often resorted to — does nothing more than provide a red light to indicate all is not well. It does nothing to provide correct data.

In the case of intelligence, we thought that at least we knew what we were trying to measure. At least the term had meaning for the layperson. But personality raises the immediate question: What are we to measure?

The dictionary yields thousands of words which refer to aspects of personality and obviously we cannot hope to measure them all.

Statistical research has tried to find some basic dimensions underlying them. Cattell and Eysenck are the two best-known schools of thought.

For New Zealand use, however, we need to embody the findings in a test based on sound local studies.

Any detailed consideration of measures of aptitude, (based on genetic endowment) and ability (resulting from training and experience) or interests (important for the enjoyment of work) requires separate treatment.


John Adcock ... personality needs objective testing

We thus have a situation in which major and important personnel decisions are being based partly on highly suspect and dangerous assessment procedures. These procedures, in the case of personality and the 16 PF, are not only unfair to the subject undergoing the test but also to the decision processes in the selection, placement, promotion and development of personnel. This is particularly so at higher executive levels.

Other evaluation factors not only require separate treatment, but are more easily measured, with established test procedures, than personality.

But, personality obviously plays a major part in any individual's contribution to organisational effectiveness. In most situations, it is just as critical as ability, experience or potential.

The need to objectively consider personality is essential for correct decisions in any arena of people assessment. The only methodology available is that offered by the personality test. But the comparatively wholesale acceptance and often uncritical use of the 16PF has been most unfortunate.

To empirically assess personality, it is essential that care, expertise and — above all — a clear understanding of what tests such as the 16 PF can and cannot do, are all exercised if the real substantial and unique benefits that they offer are to be realised.

How paperback whizz keeps Penguin in the swim

by Gordon McLauchlan

THE British book publishing industry is holding on to its export business by cutting profit margins, says Penguin Books chief Peter Mayer who was here recently. So the soaring price of imported books to this country may stabilise for a while — but for how long is anyone's guess.

Costs are the problem, exacerbated by the continuing strength of the pound sterling among international currencies, says Mayer.

Mayer is the 43-year-old American paperback whizz chosen two years ago by the huge Pearson Longman corporation to revitalise its languishing Penguin publishing operation.

Penguin is a multinational but its health depends on the strength of the British parent company. Its export volume parallels that of the whole British publishing industry, at about 40 per cent of the total production.

The strength of sterling has forced up costs to the point where publishers have to hold back on prices and keep them below accepted profit margins to keep that export volume.

"British publishers have taken the view that this problem is temporary and that it makes marketing sense to hold the business with lower profitability rather than to lose it and then try to win it back again another day," Mayer said.

One result is a diminishing amount of production work being done in Britain and more being done in the United States, the East and Italy.

"Penguin still does all its printing in Britain but one competitor of ours has 85 per cent done in other countries," he said. "This puts real pressure on the other publishers because it's the lowest retail price that sets the price level.

"Although we're very unhappy to be going through all this, it is having, in business terms, a salutary affect which one hopes will finally benefit the industry. People are having to watch overheads very carefully and run their operations much more efficiently. I think that at the end of a two-year period a much healthier publishing industry will emerge."

Britain's domestic market for books is also troublesome. The Government has cut education expenditure, because of the enveloping recession.

Another reason is the high cost of money, with interest rates running around 18 per cent.

Booksellers are reluctant to hold adequate stocks to meet any burst of consumer demand and this imposes its own marketing difficulties.

"The concept of marketing implies that while that marketing campaign is under way the shops are full of the books, but now the shops are not holding stocks the way they used to," Mayer said.

Peter Mayer was born in London, the only child of German parents who had taken refuge there immediately before the war but who, shortly after his birth, settled in New York. After graduating from Columbia College, he studied politics, philosophy and economics at Oxford, comparative literature at Indiana University and German literature at the Free University of Berlin.

He was once called by a top German publisher "the most internationally literate and literary publisher in America."

He joined Avon, a mass-market paperback imprint in the United States, as an editor in 1963 and within two years was publishing head of the company. In 10 years he raised Avon to a place among the top imprints in the country.

He was working with Pocketbooks when Penguin hooked him for London to rescue Penguin from decline.

Mayer has had a hard time in Britain. The company still holds about 25 per cent of the domestic paperback business, but borrowing for development has increased, profitability has not returned to levels of the mid-seventies and staff lay-offs have been made. Other major British publishers have had similar problems but Mayer's have been compounded by resistance within the staff to what they see as attempts to trade downwards with the Penguin imprint.

Mayer's declared policy has been to push through at least one best-seller a month and to cut down the number of titles published, striking directly at the Pelican specialist list with comparatively short printing runs for esoteric groups of buyers. This was interpreted by some staff members as pandering to a lower, mass-market taste than Penguin has been celebrated for over recent years.

Mayer said his moves were inevitable if the company was to survive. Earlier this year he retorted to a British journalist: "The distinction between up-market and down-market is not known in the United States. It's a symptom of a class society. All I see are either good books or bad books."

The journalist quoted him and commented with his English nose in the air: "A trans-Atlantic ingenuousness is one of the first characteristics to strike the visitor to Peter Mayer's crowded office."

Mayer himself has used a range of euphemisms to combat the down-market charge. He has referred to his purchases as "more accessible fiction" and (to *NBR*) termed it a bid "to democratise the list for the general public".

But his approach is commercially reasonable. He said it was only in recent years while Penguin had had an up-market image, that the strong backlist had been built up by a group of brilliant editors, when the competition was not as tough as it is today.

"This is 1980 and our competitors will certainly come and bid against us for paperback rights," he said.

"They will sometimes win at the auction. We can't just sit back and live off the backlist of the past. We must bid for books which will make the backlist of the future.

"Each month we want at least one book that bursts out. The publication of up to 20-odd books a year for a mass market will not affect the company publishing 390 books that are four-square in the Penguin tradition.

"Retail patterns are changing and booksellers are insisting on books that have a high sales velocity. We can't ignore that. They are our customers and we must take notice of their needs."

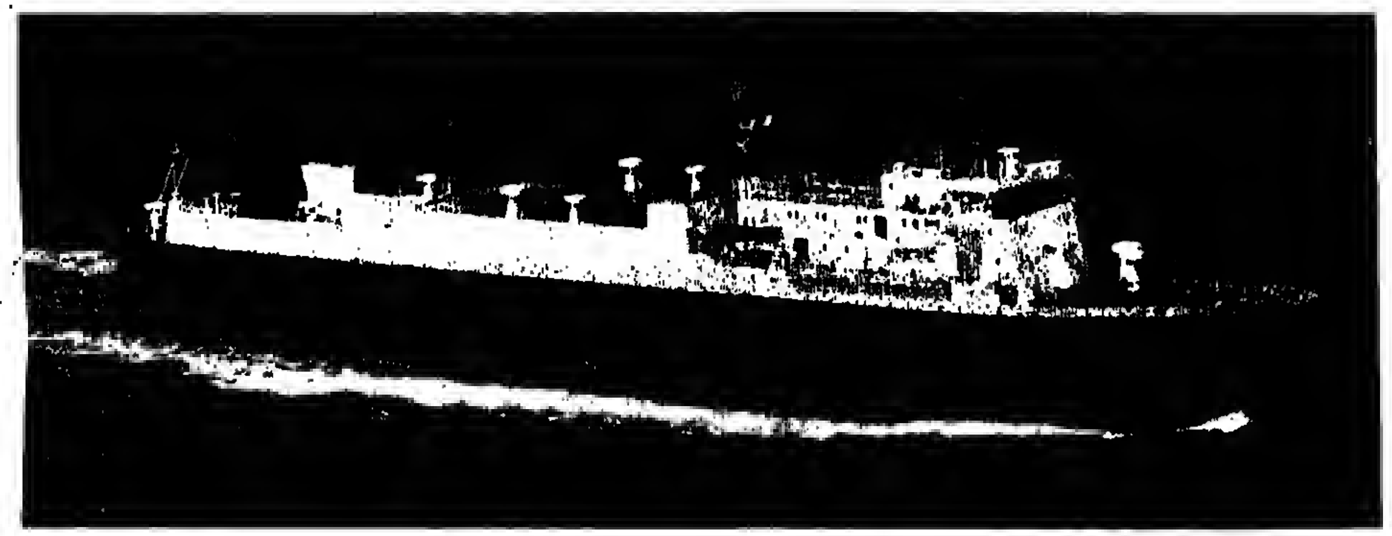
Mayer had enormous success as a paperback publisher in America and not by pandering to the base tastes at the bottom of the market. Whether he can succeed in the more constricting marketplace in Britain remains to be seen over the next year or two.

Mayer is a tall, bulky man, swarthy, with greying curly hair. He has an extraordinary working momentum.

He tagged a Sunday full of meetings with staff and associates in Auckland directly on to the end of an 18-hour flight from New York, stayed on another day for consultations, then left for Sydney.

It was his second visit to New Zealand. He came here just as briskly and anonymously 18 months ago.

"Since then we've become indigenous publishers in this country," he told *NBR*. "We have 12 New Zealand books coming along. Eighteen months ago when I first came here there was nothing."



Australian Government acts on rising bankruptcy

Melbourne Correspondent

NEARLY 5000 persons were declared bankrupt in Australia last financial year – the fourth successive year to record an increase in national bankruptcies figures.

This steady increase has prompted the Australian Government to propose amendments to the Federal Bankruptcy Act. Among other changes, the amendment Bill reduces the automatic discharge period from five to two years, while protecting the interests of creditors.

The Government also proposes to establish a common investment fund in order to recoup part of the cost to the taxpayer of the trustee services now rendered by official receivers.

The rapid increase in the number of bankruptcies has lead to a growing shortfall of revenue over expenditure in the administration of the Bankruptcy Act.

In 1969, the shortfall was $A242,560; in 1979, it had risen risen to $A2,090,440. The Government said this deficit cannot be reduced by an increase in fees. All trust moneys held the proposed official trustee on account of bankrupt estates will be treated as a common fund for the purposes of investment.

The interest from these investments will be paid into consolidated revenue in order to offset the cost to the Federal Government of trustee services it provides in relation to those estates.

In addition moneys in the fund will, in certain circumstances, earn interest for the benefit of persons entitled to share in the distribution of those moneys.

The bankruptcy increase has also severely affected the efficiency of the country's bankruptcy administration. In approximately 70 per cent of estates it is now taking at least two years to realise the assets and distribute proceeds to creditors.

Federal Opposition spokesman on Industry, Commerce, and Business, J Hurford, said that managing bankruptcies had become a growth area in the public service, with 44 extra staffing positions being created this year and new computera being installed to handle the work load.

A Government spokesman admitted that more staff and the introduction of automatic data processing systems were needed to alleviate the adminisrative problems brought about by the increase.

He said the proposal to reduce the qualifying period for automatic discharge from bankruptcy from five to two years took into account "the problem of rehabilitation of the honest but insolvent debtor who has been unable to cope with our modern consumer credit society".

According to the Institute of Mercantile Agents, the debt-collectors' national body, bad debts have almost doubled in the past two years, and excessive use of credit was cited by many bankrupts as a prime cause of their insolvency.

But statistics recently released by the Federal Department of Business and Consumer Affairs indicate that unemployment is also becoming an increasingly significant factor in non-business bankruptcies.

For business bankruptcies the main reasons stated are lack of business skill, training or experience, and insufficient initial capital.

Nonetheless, the Government acknowledges that the rising rate of bankruptcies reflects the economic conditions affecting industry throughout the country, conditions which it concedes have led to a decrease in the social stigma attaching to bankruptcy.

Australia's first new trading bank in half a century given Govt go-ahead

Melbourne Correspondent

AUSTRALIA'S first new trading bank in nearly fifty years has been approved in principle by the Government.

To be known as the Australian Bank Ltd, it will initially have a capital of $A30 million contributed by about 15 shareholders, and is expected to commence business before June next year.

On current gearing the new bank will have a lending capacity of $A600 million.

After being approved by the Australian Treasurer, John Howard, the name has been registered with the Treasury.

While the formal application for a banking licence may be deferred until after the Federal election on October 18, Howard's consent to the use of the word "bank" as a registered company name in various Australian states, has been widely interpreted to mean that the granting of a banking licence by Treasury is now a formality.

In the past, the Treasury has firmly refused to permit merchant banks to employ the name "bank", and its consent for the new one to do so is seen by financial observers as clear evidence that it intends to grant a banking licence.

Under the relevant provisions of the Banking Act "a body corporate which desires authority to carry on banking business in Australia may apply in writing to the Treasurer for authority accordingly."

Howard said there were no specific criteria for assessing an application but any applications would be considered against the importance of maintaining stability in the Australian banking system.

It would also have to comply with the requirements of the Banks (Shareholdings) Act which limits the amount of voting shares in which any shareholder has an interest to no more than 10 per cent.

For this reason shareholding companies cannot equity account their profits from the banking operation as such but have to rely on the investment income from any dividends.

The Australian Bank Ltd is the creation of Western Australian mining entrepreneur and multi-millionaire, Garrick Agnew.

Its chief executive will be Mark Johnson, former Australian head of merchant bank, Hill Samuel, and now the youngest chief executive of any Australian trading bank.

Johnson said: "It is going to do all the things that are defined as banking in Australia. We are going to provide retail services to people.

"If you want to come in and have a cheque account with us you are going to be able to do so, but we are not going to put a branch on every street corner to provide that service right across the country.

"The essence of our competitive strength is that we will not have this large branch network. We will not have to concentrate on the administrative effort, putting all our resources into that area of activity.

"Consequently we are going to have a relatively small organisation, and we believe we will attract highly skilled people to do it. We are concentrating on a relatively small group of target customers, and hope to be able to give them greater depth of analysis, and swifter answers, because it will be a much shorter chain of command," he said.

The new bank will be competing with merchant banks by specialising in the area of resource financing, where as a trading bank it will have some distinct advantages.

Johnson said the Australian Bank Ltd would be an active operator in the foreign exchange field, which of course is intimately associated with the financing of resource development in Australia.

There was room in several banking areas for specialised services to compete, he said.

Initially the bank will open branches in Sydney, Perth, and Melbourne, later opening further branches in other state capitals.

The man behind the new bank, Garrick Agnew, indicated however that there was no intention of merely duplicating the role of the Australian Resources Development Bank.

The new bank would undoubtedly emphasise resource projects, but unlike the ARDB, it would be equally concerned with all industrial and corporate activity, and provide a wide range of banking services to the public generally.

He added that the bank would probably have a merchant bank subsidiary but he doubted that it would be interested, particularly in the early years, in branching out into any other subsidiaries.